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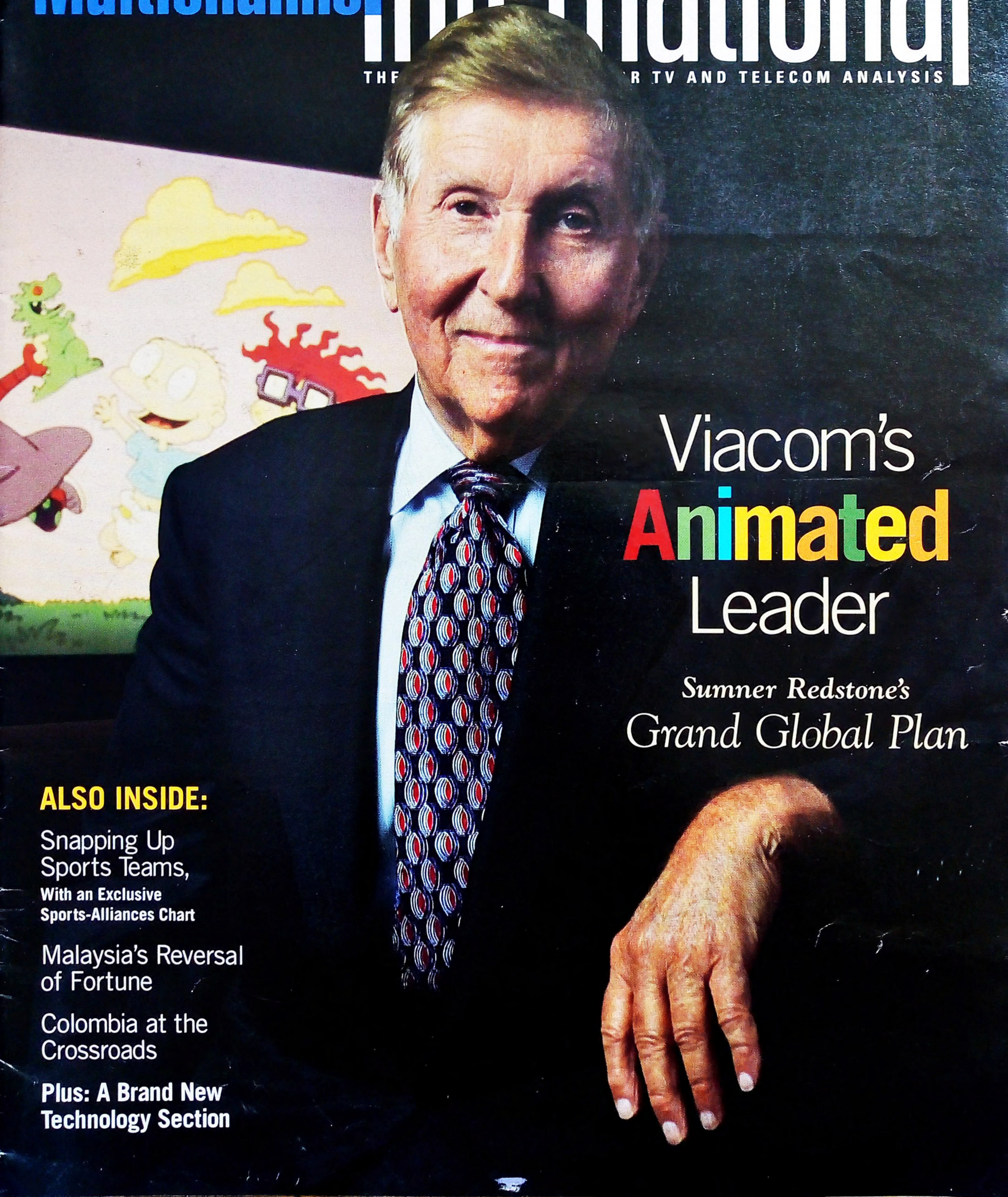

Viacom's Animated Leader

Sumner Redstone's Grand Global Plan

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Snapping Up Sports Teams,
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Malaysia's Reversal of Fortune

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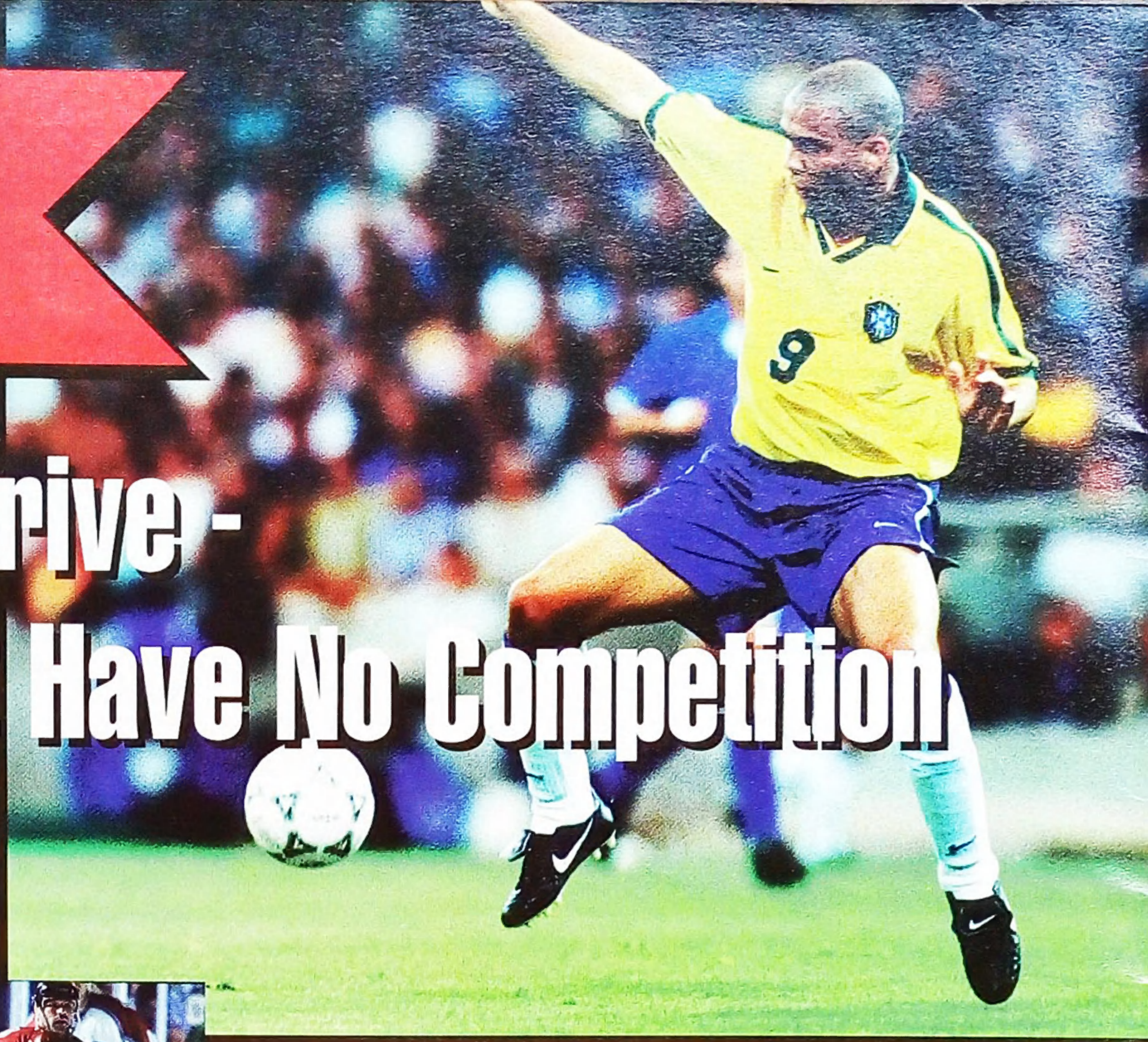

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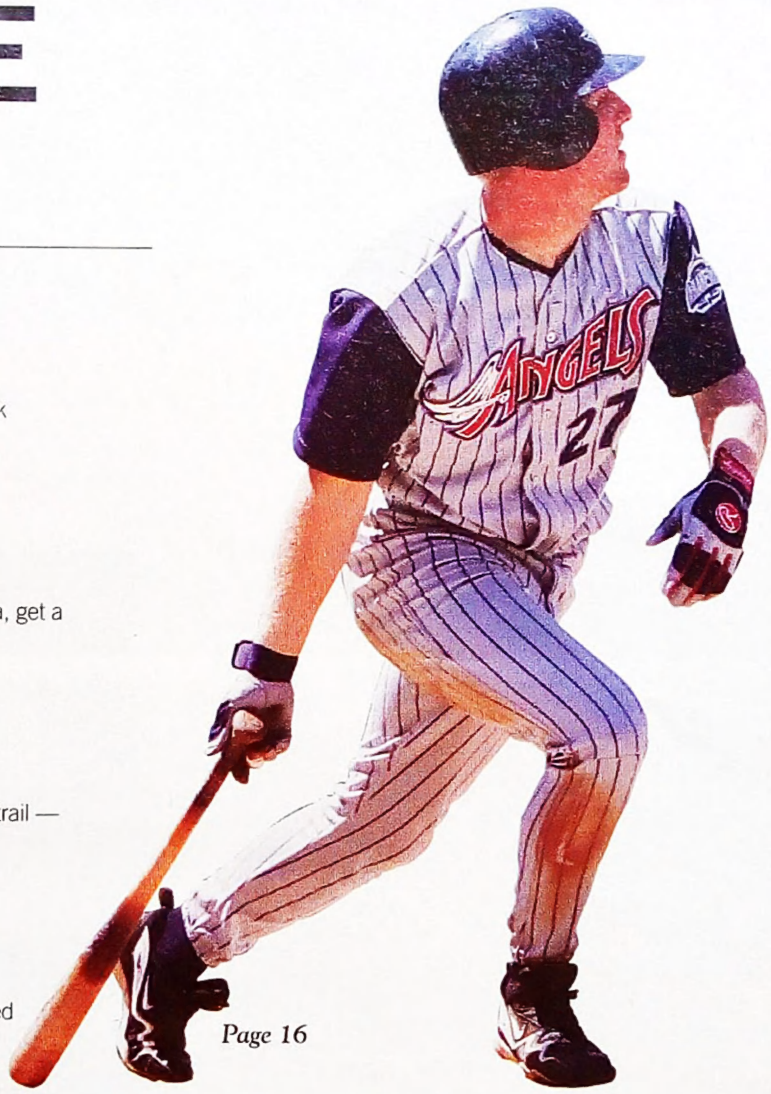

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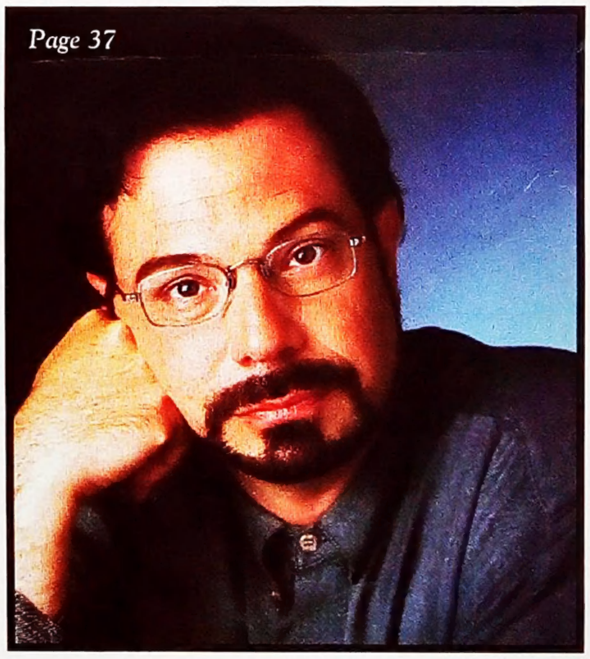

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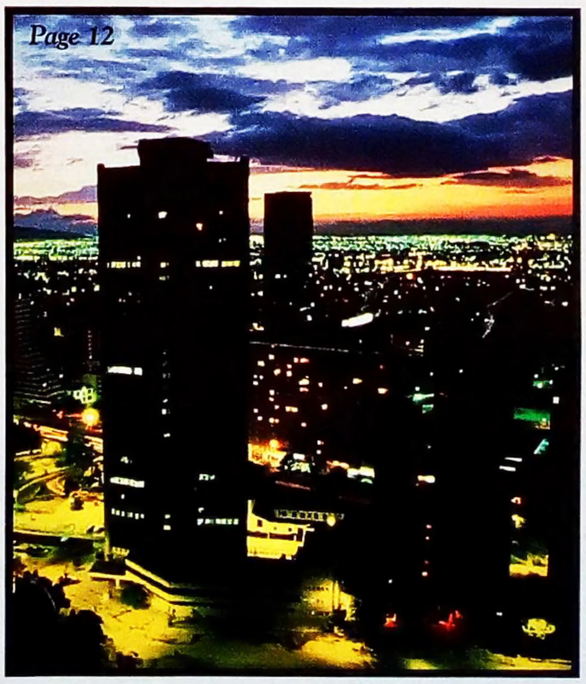

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WORLD **WATCH**

Building a Better Show

By Janet Stilson

There's an old Chinese saying that goes "Always a rebellion, never a revolution." And as I look back on the year just ended, I can't help thinking that it applies to many of the trade shows that I attended around the world.

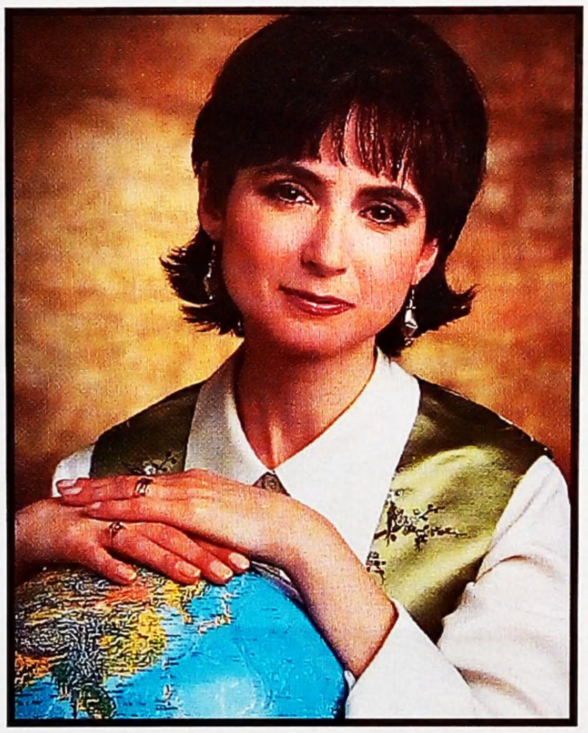
Were you among those who spoke of rebellion while grousing about the lack of potential clients at Argentina's annual cable trade show, Jornadas, in July, or Brazil's TV Link in September? Did your voice echo down the empty corridors of the panregional Latin American TEPAL show in Orlando, Fla., or the MIP Asia program market in Singapore? Are you fed up, like so many people, with the lack of "decent" accommodations at Europe's MIP-TV and MIPCOM markets?

There were threats to either boycott some of those shows or force the organizers to make significant changes so that the gatherings are more beneficial to exhibitors and attendees alike. But will revolutionary change really occur, or — in some instances — is it even possible?

Perhaps a partial answer comes from a surprising success story that occurred late in the year. Who would have thought that the panregional Cable and Satellite Broadcasting Association of Asia (Casbaa) show would actually prove vibrant, with the Asian economy in the dumps? Attendance may have been off last year's numbers, but programmers reported lots of activity on the exhibition floor in Singapore. And some of the panel sessions generated unusually frank and constructive conversation.

In retrospect, I've concluded that one key reason Casbaa proved successful was that people in Asia are so up against the wall trying to face the revolutionary changes in economics that they're far more willing than before to work cooperatively and put forward industry initiatives that will attract advertisers and subscribers. Another key reason is that Casbaa attracted lots of potential buyers from a multitude of countries. Part of the problem with Jornadas and TV Link in Latin America is that there are very few customers that can be lured because of the consolidation of the Argentine systems business, and the long-delayed cable-licensing process in Brazil.

Latin America, at least in the near term, might benefit from stealing a page out of Asia's book by generating one massive exhibition — or perhaps two regional shows — in order to draw in more customers. Obviously, the cable industries in individual markets all have unique issues to discuss. But they might be better addressed by low-cost industry meetings or conferences once or twice a year, saving the splash and glitter for the panregional affairs.



Latin America might benefit from generating one massive exhibition—or perhaps two regional shows—to draw in more customers.

Ironically, the Asian business will probably take two steps backward in 1999, because Casbaa and Reed Exhibitions — the Casbaa show's organizer in the recent past and a corporate sister of this publication — have parted ways. This year, Reed and Casbaa will hold their own separate gatherings with pretty much the same function, as far as I can tell.

National trade groups like the Argentine Cable TV Association (ATVC) and the Brazilian Subscription TV Association (ABTA) might face a revenue slide if they don't have individual trade shows on which to bank. But, as some commercial show organizers that glutted the market with conferences over the last five years have learned, if a gathering doesn't serve a valid function, people may just stop attending.

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This is what exhibitors said about our most recent event, EuroCable Poland '98, held in Warsaw on 8th, 9th & 10th November 1998:

"We didn't need to be here after the first morning. We met our specific intentions in the first 3 hours!" **Colin Edwards, Marconi Communications.**

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"This has been done properly – you've hit the target market. We are very pleased – you have all the right people here! The show is excellent value – everything is in the right place and it works very well. We will be doing it again and as we had a great success at this show, we have no reason to believe that we won't have the same success at all of the other Eurocable shows that we will be exhibiting at in 1999". **Timothy Vaas, Arcom International**

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BLIPS ON THE SCREEN

A New Trajectory At TeleNoticias

MEXICO CITY

BY JO DALLAS

The gentle strains of violin music, the antiques and the Mexican art gracing the offices of Clemente Serna Alvear do little to suggest that he has the killer instincts to spar in the highly competitive world of Latino news channels. Nor does Serna's initial explanation of his vision for his recent acquisition, CBS TeleNoticias, offer much insight. "We are experimenting with a hybrid operation," says the dapper 62-year old.

Although that remark is somewhat obtuse, the other properties that form Serna's Grupo Medcom media holding suggest he shouldn't be taken lightly. The Mexico-based company counts among its assets a television station and radio programming, as well as publishing interests that include *Expansión* magazine, the local equivalent *of Business Week*. The 24-hour, Spanish- and Portuguese-language channel TeleNoticias joined that fold last November when Medcom bought a majority interest in the network from CBS Corp.

In entering the world of TV news channels, Medcom has its share of challenges up ahead. For starters, the local and panregional news genres are already crowded in Latin America, and the panregionals often garner only mediocre ratings.

What's more, news has attracted some of the region's biggest players. Turner Broadcasting System International says its CNN en Español has racked up more than 7.5 million Latino households since it launched in March 1997. That compares to the 8 million pay TV subscribers TeleNoticias garnered in four years. At the same time, Grupo Televisa S.A.'s Eco news channel has been busy beefing up its content by partnering with top broadcasters in the region.

Leonardo Simpser, a media analyst with Deutsche Morgan Grenfell in Mexico City, describes Serna as "a very good deal-maker." And according to a former TeleNoticias executive, the chan-

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Evolving in Eastern Europe

BUDAPEST

BY THERESA AGOVINO

Robert Gardner enjoys capitalism in Eastern Europe, but right now he's still getting used to the idea of being able to make choices. This time it's over Discovery Channel. Sure, he thinks it's a good network, and if he buys it for his cable system in the Czech Republic, it could entice more Czechs to subscribe. The network is so desirable that he might even be able to raise his rates.

There's just that one nagging question: "Is this the best use of our resources?" asks the general director and CEO of the 60,000-subscriber TES Litvinov cable system.

Such a debate might get little more than a yawn in regions with well-developed cable industries. But in Eastern Europe, where subscriber fees are especially low, this seemingly small matter is paramount for companies such as TES Litvinov, which charges between $US4.50 and $US7 per month for its basic package.

Across the region, the TV and telecommunications industries are grappling with the changes — and competition — brought about by privatization.

Cable operators and program networks are enhancing their products to compete with the reinvigorated terrestrial channels that sprouted both from the privatization of former state-run broadcasters and the launch of new commercial players.

KOVACS

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Ross Rises Again

THE HAGUE

BY CHRIS FORRESTER

For the last few years, Bob Ross has kept a pretty low profile, enjoying a healthy settlement after leaving Turner Broadcasting System Inc. in the wake of the company's July 1996 acquisition by Time Warner Inc.

Now he's back on the radar screen. Ross, who had been one of the industry's highfliers for years, heads New Skies Satellites N.V., a newborn spinoff of multinational satellite operator Intelsat.

Back at Turner, Ross made his mark by trotting the globe to plot the overseas-distribution growth of CNN International. His particular strength was establishing a global infrastructure of satellite distribution for CNNI and Turner's other international networks that followed.

Never one to shirk a challenge, Ross is the perfect candidate to head New Skies, reckons Dean Olmstead, Société Européenne des Satellites' (SES) director of business development and a former executive at Hughes Electronics Corp. and DirecTv Japan. "It's a hell of a task, but if anyone can make a business out of it, it's Bob," says Olmstead.

Ross' Rolodex will come back into action, too. When he was let go at Turner, the move shocked observers. Even now, one former colleague sums it up by saying, "It

ROSS

was Turner's loss. Bob simply knows everyone in this business."

New Skies is based in The Hague, just outside of Amsterdam. The company is keen to exploit Amsterdam's superb air links and the comfortable lifestyle of the region. For Ross, that means taking on his second expatriate hitch; the American executive served in London for Turner for a couple of years.

Intelsat is part of the Interna-

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Moving Up—And Over—at *MNI*

Multichannel News International is pleased to announce the promotion of one of its top editors as well as new and improved offices in Mexico City.

MAHONEY

William Mahoney, who has been executive editor of *Multichannel News International* for the last six years, is taking on the new position of associate publisher as of Jan. 25.

"Bill has had an outstanding track record as a journalist covering international television. And we have every expectation that he will further strengthen *Multichannel News International's* stellar reputation in his new role as associate publisher," said William McGorry, group vice president of *Multichannel News International* and its sister publications *Multichannel News, Cablevision, CED* and *Wireless Week*.

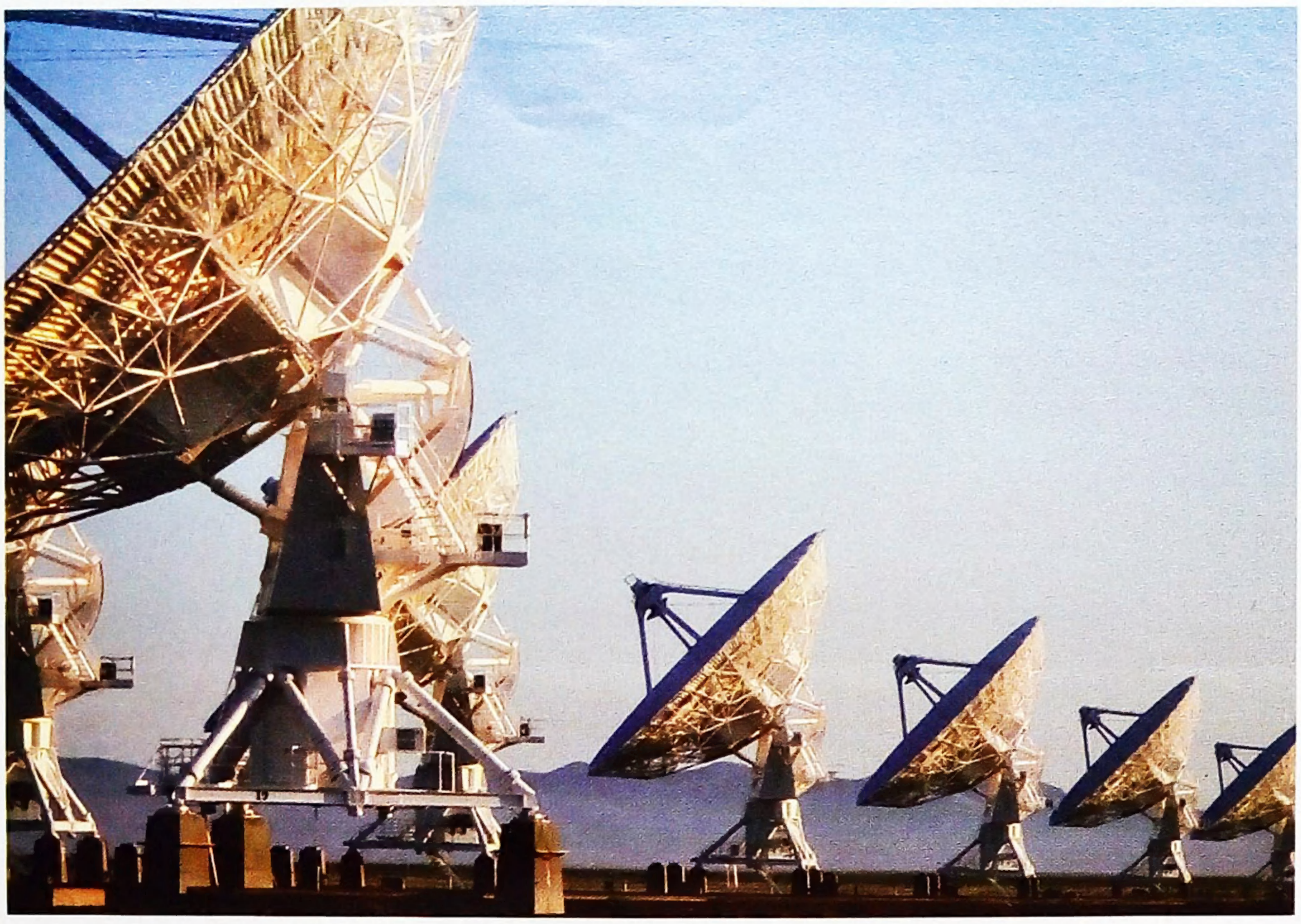
Mahoney will move from London to the magazine's New York offices on April 1.

In other news, the Mexico City office of *Multichannel News International* has moved.

Jo Dallas Bedingfield, senior editor of *Multichannel News International* and *Multichannel News*, can be reached by telephone at (5) 25-211-2672 and by fax at (5) 25-211-4657.

The new address is Guadalajara 103 F; Col. Roma; Mexico D.F. 06700; Mexico.

Coming in the March Issue of Multichannel News International



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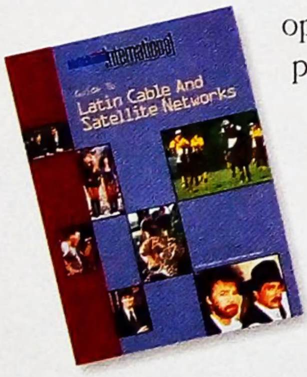

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VIACOM'S Visionary

Sumner Redstone, chairman and CEO of Viacom Inc., loves to highlight the rationale for his company's strong push overseas with one simple fact: 96 percent of the world's eyeballs are outside of the United States. And, if you believe what you read, Redstone is a man worth listening to.

He's one of the richest men on the planet, according to *Forbes;* one of *Premiere* magazine's 100 Most Powerful People; and one of the media leaders at the top of *Vanity Fair's* New Establishment list. And Viacom, of course, is counted among the Fortune 500.

His accomplishments over the last year support those accolades, and will no doubt contribute to his wealth as well. Redstone has dramatically cut Viacom's once-perilous debt, turned around the flagging Blockbuster video-rental chain and fine-tuned the company's portfolio by selling some major assets.

After lumbering for years under the weight of the $10 billion in debt Viacom took on in 1994 to acquire Paramount Pictures, the company has finally chopped its leverage down to $4 billion. Viacom's stock, which fell to as low as $26 in November 1997, now trades above $70, and JP Morgan Securities forecasts that it will hit $85 this year.

Viacom just sold its Simon & Schuster publishing unit for $4.6 billion, and Blockbuster is expected to be spun off through an initial public offering by mid-year. As a result, MTV Networks, which accounted for a third of Viacom's cash flow in 1997, will represent almost half the company's value once all the restructuring is complete. The international activities of MTVN will become an increasingly larger part of MTVN's contribution to Viacom.

Viacom's "eternal optimist," as his executives call him, took an hour recently to map out his global view *for Multichannel News International* executive editor William Mahoney. An edited transcript follows.

MNI: Your mantra has always been "content is king." I wonder if you're beginning to change that tune a little bit, looking at the activity of people like Rupert Murdoch creating whole distribution platforms?

REDSTONE: No, really not at all. Interestingly, when I first acquired Viacom, which was back in 1987, the value attributed to our assets was largely in hardware. But, from the time I acquired, my particular passion has been content, and that has not changed.

I wouldn't denigrate [signal] distribution in any way. There are times when it appears to be extremely important, but, as I am one to say, people do not watch distribution; they watch what's on it. What makes distribution succeed is content. So our company has been singularly focused on content, in particular branded content.

MNI: But you have always been a proponent of long-term thinking and, to me, this seems a bit contrary to that because we're beginning to see regulatory moves go in favor of the platforms, and against the programmers.

REDSTONE: I really don't agree with that, but I understand your point of view. I know you're talking about what recently took place in England [with the channel unbundling decision], which we disagreed with.

As I see the world developing — particularly in a world of a lot of fragmentation, a lot of choices —strong, powerful branded content, like MTV and Nickelodeon, will remain the first choice. And, indeed, those powerful brands give us a lot of leverage in dealing with contemporaries around the world.

MNI: And I guess you could argue that your programming operations will be profitable much sooner than Murdoch's distribution operations.

REDSTONE: Well, indeed. As a matter of fact, our international operations are already turning profitable in Europe. In South America, we are profitable. Our advertising revenues are way up this year. Our revenue is way up in Europe.

Yes, Asia is a challenge to a certain extent, but we're very close to breaking even in Asia as well. I believe that we'll be breaking even in Asia within two or three years, and the rewards that will follow from that are enormous.

You look at the future, and you see Asia and Latin America becoming major markets for our product.

MNI: How much have you lost in Asia on MTV?

REDSTONE: We've maybe brought [a] $15 million [loss] to the bottom line. That was not really a change. All we did was consolidate above the line what was below the line, so it appeared.

MNI: Outside of the United States, localizing your product is key because one of the things we're seeing is that, while U.S. product is clearly still pretty easy to sell overseas, it's not the driver that it used to be.

REDSTONE: You're absolutely right. While MTV is the No. 1 pan-European network, we have regionalized our programming everywhere in the world. We have 11 different feeds right now, and in 10 of them MTV is the ratings champ. The only one where it is not is in Germany, and yet MTV is far more successful in Germany economically than Viva.

In the other 10, we are clearly the ratings champ, and that comes about from a deliberate decision to respect the views, the

customs, the attitudes and the tastes, particularly, of individual regions — and, at the same time, to capture a lot of advertising revenues. Again, I want to emphasize the advertising revenues of MTV have grown astronomically, particularly in Europe.

MNI: We love numbers. Throw some at me.
REDSTONE: I think our local advertising was up about 70 percent in Europe [in 1997], and you correct me if I'm wrong.

MNI: There was a statement put out to that effect.
REDSTONE: It's been really extraordinary.

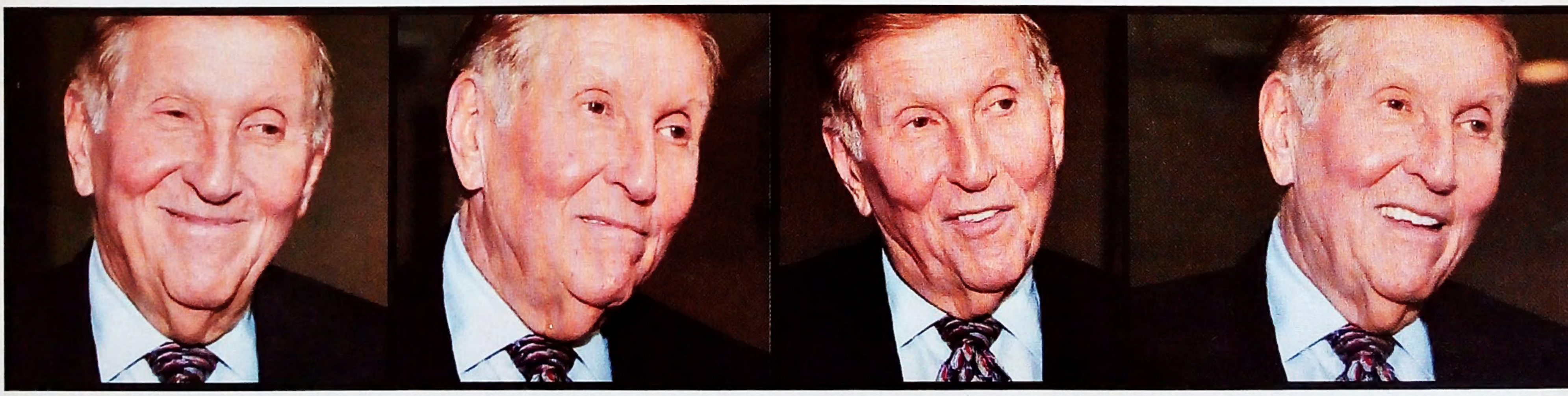
MNI: Help me put the importance of cable TV, domestically in the U.S. and overseas, in perspective for Viacom. If I look at the company in a shorthand way, following the sale of Simon & Schuster and after Blockbuster is spun off, it looks to me like MTV Networks will be about half the company and, within that, international is about 15 to 20 percent.
REDSTONE: And growing and growing.

MNI: Where to five years from now?
REDSTONE: Well, five years from now, I would expect that the revenues [from international] would be 40 to 50 percent.

That won't be because we've lost anything in the United States, because our brands are growing about as fast as they can in the United States. Incidentally, TV Land [a network mainly distributed in the U.S.] is a very good example of that. We're up to

Most of the growth opportunities are overseas,

says Sumner Redstone, the man atop brands such as MTV, VH1, Paramount, Nickelodeon and Blockbuster.

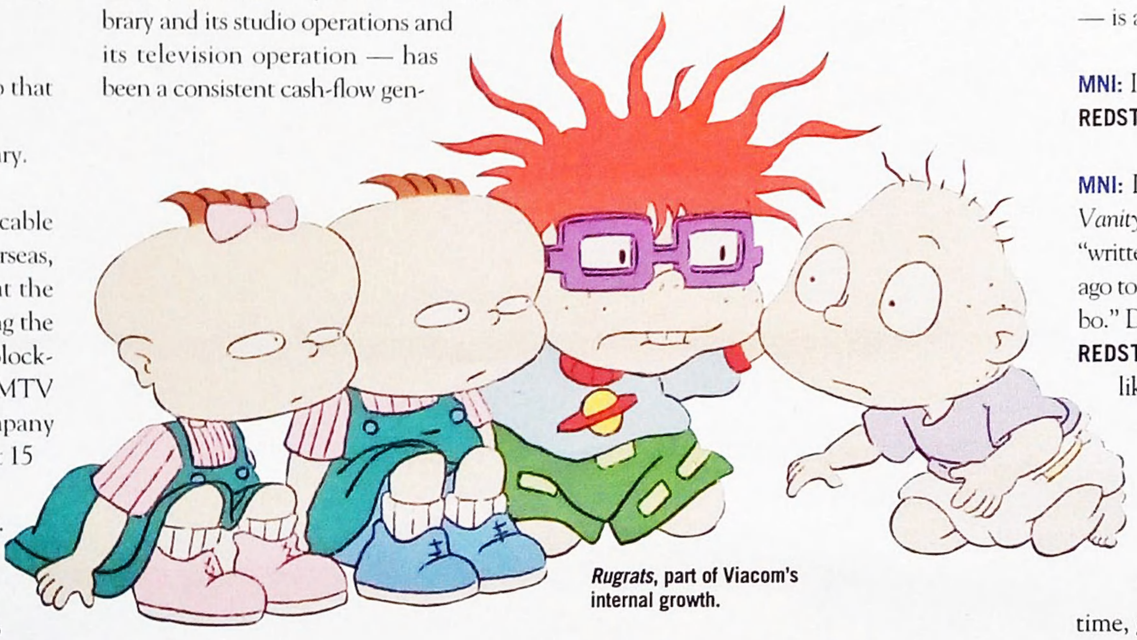


about 34 million subscribers, and we'll be in about 40 million [homes] in the not-to-distant future, which makes it a major advertising vehicle.

MNI: Will your goal for annual growth at MTV in the United States continue to be 15 percent, or should we expect that to slow down because it's a maturing business?
REDSTONE: I think we grew 18 percent last quarter, and I see that growth continuing.

MNI: What's your longer-term view for Viacom as a whole?
REDSTONE: Viacom is truly on a new growth curve, even though people may look back and say, "You were [trading at] $26 in November [1997]. You're at $64 or $65 today," which is not bad. We see this as just the beginning.

As you point out, after Blockbuster and Simon & Schuster, MTV will be a very strong part of our business, and MTV is growing at phenomenal rates. It continues to do it every year. The other part, of course, is Paramount, which — with its library and its studio operations and its television operation — has been a consistent cash-flow generator. Those will be our primary businesses. [The movie channel] Showtime will have the best year in its history this coming year, and it had the best year in its history last year.



Rugrats, part of Viacom's internal growth.

I think we're left with very, very strong assets within our company that should grow at a great rate. Looking out into the future, my view is that our core brands and franchises will continue to be leaders in the United States. And you're going to see more localized MTV and Nickelodeon and VH1 all around the world.

Paramount continues to be a key provider of programming for our networks and others. We have extremely lucrative Paramount [syndication and network] deals in Germany and in France. We think Paramount will continue to create global hits. It's been about the most consistent of all the studios.

And, by the way, I would emphasize both here, particularly, and ultimately overseas, the importance of the MTV/Nickelodeon brands to the Paramount studio. *Rugrats*, the movie, is a wonderful example. First, [it shows] the power of the brand to the studio, and also our ability to create franchises within franchises.

MNI: You referred earlier to the major Paramount deal in Germany — the output agreement with The Kirch Group. I've seen you quoted saying it was worth $2 billion. Given the slow start of Kirch's DF1 satellite platform, can you revise that figure?
REDSTONE: No. It looks like it's worth about $2 billion.

MNI: There hasn't been a renegotiation?
REDSTONE: No, there has been no renegotiation. As a matter of fact, I had dinner recently with Leo [Kirch, the company's CEO] in Germany. I flew over to see him. I had a very nice dinner with him, and Leo went out of his way to assure me that his company will fulfill every obligation.

MNI: So, when you look at those types of deals in the future, you wouldn't approach them any differently, given how much they have missed their own projections? You wouldn't maybe hold back more of that product for your own operations?
REDSTONE: I think you're asking a very good question. As we move ahead, I think we always have to rationalize the use of our product for our own networks against licensing that product to others.

I'll give you a very good example of that. It happens to be local: TV Land. Most people do not realize that 40 percent of the product on TV Land comes from Paramount.

So, you're right. That tension exists. In the long run, though, I must say that creating these new networks — here or abroad — is a priority.

MNI: I don't mean to be indelicate…
REDSTONE: …no, be indelicate all you want.

MNI: In the New Establishment feature in *Vanity Fair*, there was a line saying you were "written off as too old and out of touch" a year ago to lead Viacom "out of overleveraged limbo." Do you think you've disproven that?
REDSTONE: I guess I've disproven that. I'd like to think — without too much reservation about it — that's what we have done by doing what I've suggested is the role of a CEO: to aggressively seek out opportunities, and if they don't exist, create them.

That's my motto. And, at the same time, go after a problem as soon as you see it, and turn it around.

What we did with Blockbuster [in instituting a new, revenue-sharing arrangement with the studios] I think is one of the great stories of recent times. Today, every studio is on a revenue-sharing model. We're doing great; the studios are doing great; and, most of all, the consumers are doing great.

So I'm really proud of that. Basically, we didn't just stick to what existed. We changed entirely the dynamics of an industry, and that industry is now successful, and we're the most successful within it.

MNI: Will the turnaround enable your company to do some things this year and the year after that you wouldn't have done otherwise? I think you surprised both the analysts and the executives within your own company during your earnings presentation in November by making statements about the possibility of acquiring additional cable networks.
REDSTONE: Let me put that in context be-

cause a statement grabbed out of context doesn't really tell the whole story.

What I said was that our focus would continue to be reducing debt and de-leveraging the company. The fact is that we have taken the company from $10 billion to $11 billion in debt to $4 billion almost overnight, and I see the real possibility of cutting that in half over the next year. We could be a company with about $1.5 billion in free cash flow in a couple of years, and there aren't many companies that could accomplish that.

Having said that, there will be a time when we will be criticized for being under-leveraged as much as we were criticized for being over-leveraged. And, when that time comes — and that does not suggest that I'm not already focusing on various opportunities — we will be in a growth mode instead.

Now, I said that a lot of our growth will be internal. It was not long ago that I committed $350 million to animation, and we're now really realizing the rewards of that. Out of that has come, of course, not only *Rugrats*, but *Rugrats* the movie. So a lot of our growth will be internal.

I did say that if we saw opportunities in expanding our cable networks, whether it be with internal growth or some transactional opportunity, we would take a good, hard look at it. But, I certainly made it clear that we would never lever this company up again like we did with Paramount. I would not want to live through that again. So, I think that puts that in context.

[Cable programming] is the best business of Viacom, and it's the best business in the entertainment industry. So, obviously, these are areas that we would concentrate on in terms of growth industries.

We're not interested in acquiring where the economics are in the future. Anything

that we do will have to be justified currently, in terms of price and cash flow.

MNI: I know the notion of MTVN going public has been talked about from time to time. I see the inherent difficulties in devaluing the Viacom stock by taking MTVN out from under Viacom, but it must be something that comes across your radar screen now and again.

REDSTONE: No, I must tell you, it really doesn't, and I'll explain to you why. The fact of the matter is that MTV Networks continues to grow, year after year. Why would we want to part with any part of it? We don't need the money. We don't need to do what others have recently done. We would be totally out of debt. I don't know how many other companies could say that. I don't know if there are any. Perhaps there are.

Why should we sell a piece of one of the fastest-growing enterprises in the world, MTV Networks?

MNI: So you're completely comfortable about funding the international expansion off the back of the U.S. activity?

REDSTONE: I would put it differently, because it's no longer only off the backs of U.S. activity. Our international operations are also giving us the wherewithal to expand internationally. Absent Asia, our international operations are already going into strong profit.

MNI: Looking at some regional issues facing the company, it appears as though the European Commission will ultimately rule against United International Pictures (the European joint venture of Paramount, Metro-Goldwyn-Mayer Inc. and Universal Studios, known as UIP), and that the group will probably be shut down within two to three years.

How will that affect your company's international operations?

REDSTONE: First, I don't know that that's true. I know what you are referring to, but I certainly do not know that's true.

But a case could be made that — just as this trend continues that I was discussing, as the foreign operations become more important, and grow and grow and grow — a company like Paramount would be better doing its own distribution [rather than distributing through UIP]. I'm not saying that as a conclusion. I'm merely saying that one would have to look at that when one evaluates the future.

MNI: Another organizational question. With Viacom's international channel operations, you currently have three different people leading units for different channels: Bill Roedy, president of MTV/VH1 International; Karen Flischel, managing director of Nickelodeon International; and Jack Waterman, president of pay TV for Paramount, responsible for Paramount Comedy Channel. Will that structure continue to make sense, or will we see a merged unit?

REDSTONE: I think, at the present time, it makes sense to emphasize each individual channel and each business opportunity. I don't know what difference it would make [to combine them], and we continue to take a look at the question you've asked.

For the time being, we're doing very well with the approach that we're taking.

MNI: In closing, I'd like to ask you a few questions about your own future. You'll be 76 years old in May.

REDSTONE: Who said so?

MNI: The history books say so.

REDSTONE: Let me ask you something. Have you and I met recently?

MNI: No.

REDSTONE: Well, I'm going to tell you something. Anybody who sees me will tell you that that's a scurrilous lie about my age — that I look like 50. I was in a waiting room recently, and a woman walked up to me and told me, "I saw you on TV, and I don't believe you're that age." I told her, "You're right, and if you don't believe that, watch me on the tennis court."

I know I'm at the top of my game. I don't think I could have made more of a contribution to the company than I have in the last year and a half. It's not just Blockbuster. The fact is that I have a terrific management team. I couldn't do it without them.

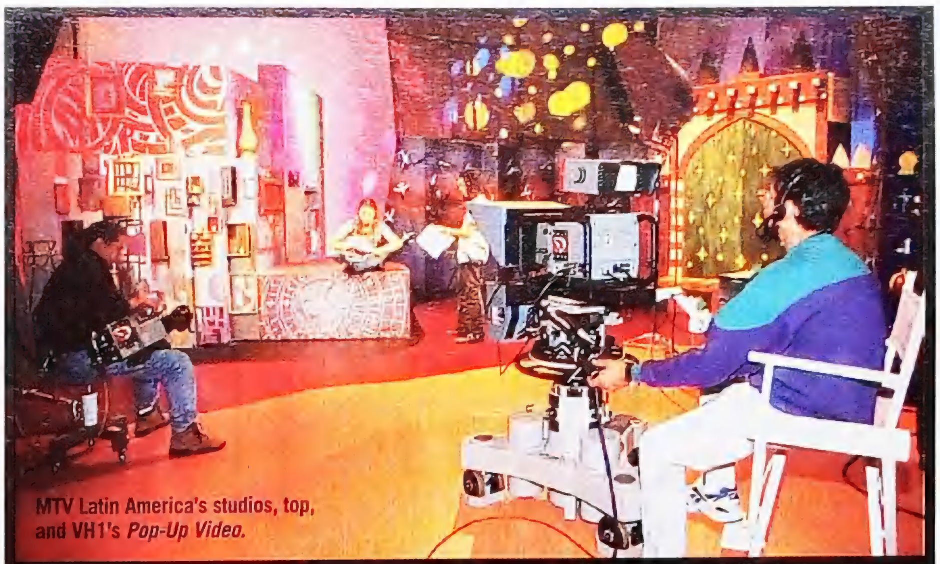
So the answer is I really feel good. I work longer than I ever have. I don't feel it. I enjoy what I'm doing. I enjoy my association with these terrific guys. We're all friends. If I'm out to dinner on a night, it's most likely to be with someone like [MTVN CEO Tom] Freston or someone from the financial community.

When the day comes, I'll know it when someone else should have my job. And the one advantage that we have is that Viacom will never have to look outside of Viacom for a new CEO. There are five or six people that could run the company. And no, I'm not going to tell you who that will be.

MNI: When you look around at your competitors, you must see people doing things that make you say, "Damn, that's a smart thing. We should have thought of that."

REDSTONE: We always look at our competitors. We never make the mistake of underestimating our competition. We just don't do that.

When somebody launches another channel, we're on top of it, and trying to respond to it. But, essentially — not because we're arrogant in any way, because we're always trying to think of what we could do better and what others are doing — we're doing the things we should do.



MTV Latin America's studios, top, and VH1's *Pop-Up Video.*

The other guys are all good, and I have a lot of respect for them. The only thing I want is to beat them.

MNI: Now you're contradicting yourself, according to what I read in *Fortune*. Here's a direct quote from you: "We want to live in peace with our contemporaries. We know there are adversarial relations at some times, but we don't view our mission as beating them."

REDSTONE: Did I really say that? That must have been in a moment of weakness. Naturally, we want to be the best at what we do, and anyone who denies that, and is in the kind of position I have, is not being totally candid. I think "beat" was probably the wrong word to use, rather to do better, to be the best — not necessarily the biggest. That, certainly, is a goal.

MNI: I was only giving you the first half of the quote. The second half is: "Our mission is to do what's in the best interests of Viacom. And if along the way there's a necessary conflict, our job is to prevail."

REDSTONE: OK, so, you see, you weren't fair to me. You only gave me the "beat" part.

MNI: Well, you cut in. Then you took the lead and ran with it.

REDSTONE: I'm inclined to do that. ■

PRAYING FOR PAY TV

The crusade to legitimize Colombia's informal operators would try the patience of a saint.

BY JUAN BUENAVENTURA

Last Nov. 5, a bombshell was effectively dropped on Colombia's cable industry. That morning, Alvaro Pava, the chairman of the National Television Commission, or the CNTV, faced the unenviable task of proclaiming the country's much-awaited cable-licensing process a dead duck.

The announcement's timing could not have been more dramatic. For it came on the day that the CNTV was expected to award new cable licenses. Four years of hard work by that agency, bitter lawsuits, media campaigns, parliamentary debate and international pressure to legalize the country's vast informal cable community had all suddenly come to naught.

With cable subscriber growth across Latin America expected to be flat over the next year, it was a particularly bitter blow. The prospect of new cable concessions in Colombia had at one time shone like a beacon.

When the bad news broke, anger and consternation shot across the CNTV auditorium. Lawyers hotly announced they would fight the decision. Like the victims of shell shock, the heads of companies currently holding licenses stared at each other blankly, trying to digest the incredible news. Gloom registered on the faces of regional programming executives who had traveled to Bogotá in hopes of signing long-awaited contracts with the new licensees.

What had sent the licensing process into a screeching halt at the 11th hour was a letter from the Colombian attorney general's office to the CNTV. It cast grave doubts on the CNTV's handling of the entire cable tender. The recommendation was that the tender be scrapped.

It wasn't advice to ignore, says Carlos Gómez, CEO of Empresas Públicas de Medellín Televisión (EPM TV), a cable operator in the northwestern city of Medellín. "In Colombia ... you cannot simply defy an attorney general's ruling. Even if it is nonbinding," he notes.

Immediately, there were plans to relaunch the tender. However, burnt by experience, many in the industry are skeptical of official word that a second attempt could be wrapped up by early July. Already, big question marks are looming.

Among them, there is uncertainty over the continued existence of the CNTV. The Colombian House of Representatives recently voted to abolish that body, although the decision has to be ratified by the Senate. Certainly, the CNTV is no stranger to controversy. Last year, it became embroiled in a political brouhaha when the then-newly elected president, Andrés Pastrana, intervened to replace two CNTV commissioners.

More scandal hit the headlines when the press reported that although technically within the law, several high-ranking government officials had directly or indirectly owned stakes in companies vying for new licenses. Among the officials accused was the country's president himself.

The Colombian cable industry's problems extend well beyond endangered commissions and political scandals. Up near the top of the list of headaches are questions concerning pirate cable operators. In Colombia, illegal systems are referred to as "informals," or unlicensed operators — a euphemistic term that reflects a unique situation. The majority of Colombia's cable companies developed at a time when there was virtually no legal framework to regulate or register systems.

"You have to understand informals. For many years there was not even a [regulatory] system in place to obtain cable licenses. Bluntly speaking, you could not legally get a license," explains Juan Córdoba, general manager of the licensed operator Cable Sistemas S.A., in Medellín.

The task of the CNTV, established back in 1995, was to bring the informals into the fold. But the failure of that attempt thus far is fueling a fear that the pirate sector will continue to grow.

"We are not happy about [the licensing delays]. In the short run, it is a bad move. It will probably lead to a new increase in piracy. We hope it does not, but it could," says Sean Spencer, deputy director for Latin American operations at the Motion Picture Association (MPA).

The concern over piracy is so great that the MPA, along with programmers selling to the region, represented by the Television Association of Programmers (TAP) Latin America, made an official visit to Colombia last month. There, they met with the attorney general, the prosecutor general, the minister of communications, and the minister of foreign commerce.

The MPA-TAP delegation was repeatedly assured that the CNTV would enforce anti-piracy legislation. They were also told that the agency would not wait until new licenses are awarded before it starts prosecuting pirates, as had previously been the policy.

The reaction was positive. "There is now a commitment to intellectual-property rights that we have not heard before. For us, that is a beginning. We are cautiously optimistic," says TAP's executive director Mary Pittelli.

Nevertheless, it will take some tough action to control a costly problem. Annual losses to the U.S. film industry in Colombia, due largely to satellite-signal piracy, were $US33 million in 1997, and $US27 million in both 1996 and 1995, according to the International Intellectual Property Alliance.

Some analysts estimate that, by 1995, there were more than 1,000 informal cable outlets versus nine government-licensed operators, which received their licenses back in 1985.

Most of the 3 million to 4 million cable households in Colombia are customers of unlicensed operators. This figure makes Colombia the region's second largest cable market after Argentina, points out Eduardo Vera, Hallmark Entertainment Net-

work's vice president for Latin American sales. And it shows the appetite Colombians have for pay television — and TV in general. If that isn't enough to make suppliers salivate, Colombia's overall TV penetration stands at almost 100 percent, the highest in Latin America.

Ironically, the stronghold that the Colombian government has on free TV helps foster the multichannel business. For years, Colombians were only able to watch two national channels, which have been overtly corrupted by gross political intervention. Newscasts plugged the interests of the main political parties — one liberal, the other conservative. Even though two private, nationwide broadcasters launched last year, cable — licensed or otherwise — has given people an opportunity to watch something different.

The CNTV's task was to put an end to years of political back-alley maneuvering in broadcasting, and to regulate the cable market. It had a gargantuan job. As Enrique Silva of the Barranquilla-based informal multiple system operator (MSO) Comercial Dinámica S.A. says, "The CNTV had to back two very different interests. Those of the licensed companies and ours."

Although its future hangs in the balance, the CNTV is currently piecing together parts of a new tender. Next year's process will classify cable operators in three categories: regional; cities with more than 100,000 inhabitants; and cities with populations of 100,000 or fewer. The attorney general's observations on the tender will be closely followed.

Last year's concession model called for multiple licenses to be awarded in the same franchise area, and so far there's no indication that the government will change that overbuild scenario. If the CNTV had granted licenses on Nov. 5, the capital city of Bogotá may well have had five cable operators competing there, including the current cable licensee TV Cable. Medellín, the country's second largest city, also could have had two new operators in addition to two established license-holders, EPM TV and Cable Sistemas.

Major cities would have probably had two or more legal cable operators. The industry is not en-

The *Catedral de Sal*, or Salt Cathedral, in Zipaquira,Colombia.

thusiastic about this prospect, least of all Salim Sefair, owner of SAS Televisión S.A., a cable licensee from the central city of Ibagué.

"In three or four years this business is going to start hurting," he says. "A market like Ibagué cannot absorb many operators. What are we going to do when three or four regional systems are competing in small markets? A small market can grow, but not that much. Besides, let's not fool ourselves, the informals are not going to go away."

Certainly, everyone seems to believe that illegal operators will stick around after the licensing process is completed. It is not known, for instance, how many informals did not participate in the most recent process, or how many were turned down on Oct. 20 for not fulfilling CNTV's technical and/or financial requirements for license applicants. But it is clear that many informals were eager to participate in a system that very much wanted to include them. Organizations whose members took part in that process include CableUnión S.A., which includes 150 informal cable operators, and the Círculo Nacional de Cableoperadores, a group of 70 unlicensed operators.

Many informals even teamed up with license-holders. Cable Unión de Occidente S.A., for example, is a company that allied three formal operators and several leading informals.


Activity at Bogotá's TV Cable.

That's all well and good. But in the here and now, delays in reforming the informal sector are of particular concern to some program suppliers anxious to rev up business in Colombia as subscriber growth flattens elsewhere in Latin America.

It's not just the illegal systems that pick up their signals for free that bug the networks. Many program suppliers have also faced pressure from legal operators who advise them not to sell programming to their unlicensed rivals.

Some international programmers, like Hallmark, have circumvented the problem by selling to Colombian cable operators as long as they have a municipal permit. But in most cases, the uncertainty has stunted such negotiations.

Another issue related to the informal sector is the so-called comunitarios, or community-based cable systems. These are nonprofit cable companies that cannot even charge their subscribers, except for minimal maintenance fees. They do not have to participate in CNTV public tenders, but must receive a license from that body and fulfill some technical requirements.

The CNTV has granted more than 500 comunitario licenses, and the demand for them continues. If a comunitario license-holder intends legally to pick up international signals, it must obtain additional permission from the CNTV. As yet, the CNTV has not handed out any such authorizations. Many are widely suspected of pirating international signals instead of going through the official channels.

Yelcy Pérez, general manager of EPM TV, points out that "in many cases, there are no concrete differences between a comunitario operation and a commercial company. Many comunitarios are just disguised commercial businesses. Legislation in some cases is even more flexible with them than with us. You sometimes think it is better to be a comunitario than to have a full-blown commercial license."

Having a vast informal sector not only robs the industry of precious revenues, it also impedes Colombian cable's ability to offer more sophisticated services, because it can act as a brake on foreign investment. As Silva of Comercial Dinámica comments, "We need to upgrade our technology, to move on to [the] Internet and to value-added services. That means foreign investment."

"Within the informal sector, you typically find one-way, 550 MHz systems that only deliver video with a maximum capacity of between 30 and 40 channels," notes Vladimir Velickovich, regional director, Latin America, General Instrument Corp.


PAVA

Gonzalo Ulloa, commercial manager at Cablevisión S.A., a license-holder in the country's third-largest city, Cali, says, "Apart from the people at [Bogota's] TV Cable, EPM in Medellín and us, almost all the networks in Colombia need urgent upgrades."

However, the technology deployed by the licensed sector compares favorably with many of the most advanced cable systems being laid down elsewhere in the region, says Velickovich. "Licensed operators are deploying state-of-the-art architectures," he says. That means two-way, 750 MHz bandwidth over hybrid fiber-coaxial plant, which creates the ability to offer more advanced services like Internet-protocol telephony.

CNTV regulations encourage telephone and other information providers to participate in an increasingly sophisticated communications market. For a cable operator to move into local telephony is not expressly prohibited, although it does require approval by government agencies. Similarly, telcos may provide television. An example of this is EPM, a public utilities and telephone operator in northwestern Colombia, which in 1997 bought its cable license for Medellín.

John Ramírez, EPM TV's financial manager, believes that competition will inevitably force the pace of technological change to accelerate. "Competition, informal or formal, is getting more and more technologically sophisticated. In a couple of years, almost everybody will have fiber optic networks. The market will be dominated by competition in services and prices will go down," he predicts.

There are new challenges up ahead for cable, too, such as the tender of local multipoint distribution service (LMDS) licenses, soon to be opened by the Ministry of Communications. There is also cable's ability to compete successfully against newer pay TV technologies, such as digital direct-to-home satellite services. Two such panregional services, Sky Latin America and Galaxy Latin America's DirectTv, have entered the market within the last two years.

Meanwhile, the political turmoil marches on. The impending vote by the Senate on eliminating the CNTV is the latest in a long line of controversies that have embroiled the agency since its inception. The big scandal last year was President Pastrana's appointment of two CNTV commissioners who were supporters of his coalition. This meant ousting two existing commissioners, appointed by the previous liberal-leaning administration. Pastrana has strongly denied that his action was in any way politically motivated.

To complicate matters further, three other CNTV commissioners will step down in June at about the same time the new cable tender is meant to be nearing completion. Even if the CNTV survives, there are some outstanding concerns. For example, one is whether it has enough public credibility to represent a technical viewpoint free from political interests. Some question whether it will have the ability to effectively monitor cable or broadcasting operations in more than 1,000 towns and cities in a country as big as Colombia. It has yet to open regional offices, although last October it set up an office specializing in pay TV.

Many of these issues have yet to be clarified, but judging by past experience they could take a significant amount of time to untangle — exactly how long is anyone's guess. But what is surely on everyone's wish list for this year is for Colombian cable to avoid the kind of setback it suffered in 1998, and enter a peaceful, productive phase of its history as quickly as possible.

Jo Dallas contributed to this report.


BOGOTA

COLOMBIA AT A GLANCE

Population:	**36.8 million**
Households:	**7,100,000**
TV households:	**7,029,000**
TV penetration:	**99 percent**
Pay TV penetration:	**4 percent**
Estimated "informal" cable subscribers:	**3 million to 4 million**
Estimated licensed subscribers:	**200,000**
Estimated DTH subscribers:	**40,000**
Estimated C-band customers:	**10,000**

Sources: National Statistics Department, CNTV, industry estimates

playing in a new league

Buying up sports teams is an important power play for TV companies in Europe and the U.S. The trend is intensifying as it spreads around the world.

BY NICK MASTERS

Ignore the transponders, encoding technologies, studios and conditional-access management systems. There is seemingly only one cost to bear in mind if you want to compete in the global game of digital TV, and that is sports.

Rather than the old business maxim "if you can't beat them, join them," the new mantra is "buy them." Already a genuine phenomenon in the United States, the scramble to buy sports clubs has spread across Europe. It has reached Mexico, and even gotten as far as Australia, where Kerry Packer is believed to be coveting his favorite Australian-rules football team, Collingwood. Owning that object of his desire embodies everything a media mogul such as Packer demands: It's a rich man's game played for high stakes.

Although the buying spree is a relatively recent occurrence, team prices are rising fast because of this growing trend, which has team supporters, regulators and rival TV companies concerned.

The phenomenon started years ago in the U.S. when Ted Turner bought his local baseball team, the Atlanta Braves, and eventually turned them into World Series champs. He made a lot of money by exploiting the rights on his Turner Broadcasting System Inc. channels. And since that time, U.S. cable operators such as Comcast Corp. and Cablevision Systems Corp. have taken control of other local teams.

But the level of activity (detailed in our chart on pages 20 and 21) really reached fever pitch last year, when two companies controlled by Rupert Murdoch made major acquisitions of sports teams. Fox Sports spent $US311 million for the Los Angeles Dodgers baseball team, and British Sky Broadcasting mounted an astonishing £623 million ($US1 billion) bid for Britain's largest soccer team, Manchester United. The price tag of the latter offer alone epitomized the stakes. With Manchester United's profits running at about £20 million ($US33 million) a year, Sky would need about 30 years to reach payback at current levels.

The bid last September prompted a nationwide flood of soul-searching in the U.K., with other media companies sidling up to soccer teams. Carlton Communications, United News and Media, and Granada Television immediately began pursuing deals with top soccer clubs. Then, on Dec. 17, British cable operator NTL Inc. made a $US17 million investment in the British soccer team Newcastle United, while also signing a pact that could allow it to ultimately gain control of the team.

While the great majority of sports-teams acquisitions are taking place in the U.S. and Europe, Mexico hasn't been left out in the cold. There, the two rival broadcast television networks have built up rival soccer assets over the past five years. Grupo Televisa S.A. owns two Mexico City clubs, América and Necaxa, while Televisión Azteca S.A. owns Morelia and Veracruz. The teams' respective parents broadcast all their games.

In other parts of the world, especially in Asia, the relative immaturity of many economies and the rudimentary nature of their sporting events have limited broadcaster interest.

Attempts to build local soccer leagues, such as Japan's J-League and Singapore's S-League, have tended to founder, even though some clubs are owned by media companies. Nippon TV, for example, invested in Kawasaki Verdi. Both leagues, though, are suffering from low ratings. And they're effectively subsidized by state broadcasters NHK and Singapore Television Twelve,

ESPN Star Sports' Asian X-Games. It and others are ramping up their sports investments.

respectively, which use public television license-payers' money.

"Sports leagues in Asia are just at too early a stage of development for the clubs to be worth us investing in," says Chris McDonald, senior vice president of Singapore-based ESPN Star Sports. "Instead, we have tried to develop local sports. A lot of sports viewers like a lot of different sports. English football, for instance, is popular in China, but so is Chinese football, so we have to reflect that. It is very important to develop product in this way."

In Latin America, Minard Hamilton, senior vice president of ESPN International, expects to see more media companies buy into clubs in the region, as Televisa and TV Azteca have done in Mexico.

However, Mariano Jinkis, a director of Argentine sports-rights distributor Full Play, explains that in much of Latin America, and especially in Argentina, the law is different from that in the U.S.

"The teams are owned as social clubs rather than companies," says Jinkis. "Companies cannot buy into the clubs, as they are owned by the supporters, and they are not supposed to make money." This is a source of increasing frustration for programmers, as rights for soccer are fast escalating in price. In the last four years alone, the rights to cover teams in Argentina have risen from $US2 million to $US10 million a year, per team, according to Jinkis.

A source at Televisa says the company had recognized the change in the market, and that was why it took advantage of its ability to buy América. "It is one of the biggest clubs in Mexico, and the rights are worth a lot to us," he says, "but there are not many others worth investing in."

Sports-team price inflation has not yet occurred in Africa, even though there are tie-ups. Last year, South African pay TV operator M-Net spun off the company SuperSport, which provides sports programming for the main M-Net channel and for CSN (Community Services Network), and offers four separate sports channels on DStv. That digital satellite service is transmitted to 39 African countries.

SuperSport's assets include 100 percent of soccer club SuperSport United, 50 percent and 24.5 percent of rugby unions Boland Rugby and Free State Cheetahs, respectively, and 50 percent of the Northern Titans cricket team.

Despite the potential, SuperSport's sports editor, Fav Roets, says, "We own a soccer club and have stakes in a couple of rugby clubs, but only because of our status as a specialist sports company. There is no tie-up between our television side and the clubs at the moment. They are entirely separate.

"We have seen what has been going on with the takeover of Manchester United," Roets adds. "Maybe someday we will make more use of our interest in the clubs, but there are no plans for the time being."

Media companies and sports teams will be looking at the Manchester United deal this year for another reason. They're waiting to see if regulators approve the deal or shoot it down. Sky's bid for Manchester United has been referred to Britain's powerful Monopolies and Mergers Commission (MMC).

Among those waiting is NTL. Officials there have noted that they wouldn't make an offer to take control of Newcastle United until they see how Sky's deal is assessed by the MMC. They acknowledged their own deal might also be referred to the commission.

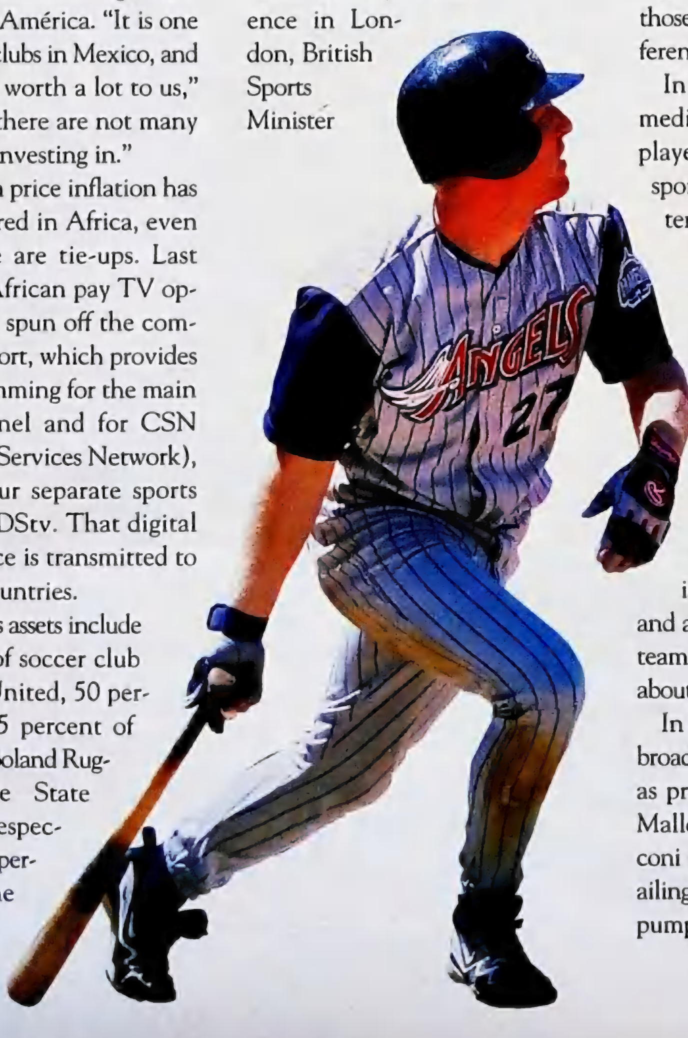
Several issues are under review that could have ramifications on the trend of media companies buying teams. On the most basic level, British regulators are concerned that such deals do not make business sense, and that the TV companies could wind up dominating major segments of sports.

Speaking at a recent Royal Television Society conference in London, British Sports Minister Tony Banks confirmed that the government is prepared to intervene in the relationship between television companies and sports clubs. "At some point, the government is going to have to get involved. We have no choice," he says.

On a related matter, British regulators are concerned about the impact on TV-rights negotiations in a future in which the major teams could be owned by media companies — therefore effectively giving them representation on both sides of the table when TV-rights deals are hammered out.

Others are eyeing how regulators treat BSkyB's bid for Manchester United, pictured here.

At lower left, Disney takes a swing at sports with the Anaheim Angels.



In Britain, the coveted Premier League rights, which were bought by Sky, were negotiated collectively by the clubs. The U.K.'s Office of Fair Trading is investigating whether the negotiations for those rights should be handled differently the next time around.

In Continental Europe, other media companies beat the U.K. players to the punch by buying sports teams first, but it was often for less foresighted reasons.

One of the more perverse aspects of the current debate is that many of the TV/club relationships that already exist are aimed more at giving the media companies trophy assets to use as status symbols rather than to gain them leverage in business ventures. Soccer is the No. 1 sport in Europe, and an association with the local team, if it is successful, is as much about ego as it is about economics.

In Spain, various executives of broadcaster Antena 3 have served as president of the soccer team Mallorca. In Italy, Silvio Berlusconi in 1996 took control of then-ailing soccer club A.C. Milan, and pumped millions of his personal fortune into making the team one of the Continent's top clubs. And besides being A.C. Milan's owner and chairman, Berlusconi is a lifelong fan.

Canal Plus S.A.'s ownership of the soccer team Paris St. Germain (PSG) is even more arcane. "For a long time, the quality of the French football league was not very good," a source explains. "By 1991, PSG was not in good shape, so Canal Plus took a controlling stake in it purely to attempt to inject some zest into the national league."

In other parts of the world, media moguls have battled over sports, but ownership of teams hasn't been the final result.

Australia was the setting for a confrontation between Murdoch and Packer over rugby. Both wanted to control the sport there, seeing it as a foothold to gaining control over rugby internationally. Packer backed the Rugby League, and Murdoch the Super-League.

However, the small scale of the Australian pay TV market forced a merger last year. The two sides combined, with Packer agreeing to accommodate Murdoch's Foxtel. The remaining Rugby League games are shown on both pay and terrestrial television, including Packer's Network Ten. The control of the league was handed over to the rugby clubs themselves, which are still fighting out legal issues.

However, Murdoch raised the bar with his Manchester United bid, clearly illustrating that soccer's status as a driver of pay TV is what has led other media companies to take an increased interest in the sport.

John Mansell, senior analyst at Paul Kagan & Associates, stresses that the motivation for such a deal is different in Britain than in other parts of Europe.

"In the U.K., there is a pressing reason for buying into the top football clubs [because] there is a chance that collective bargaining for the league could be broken up," he notes. "So, by owning one of the biggest clubs, News Corp. is hedging its position against [losing soccer TV rights from] any break up."

Last year, the EC moved to enforce its long-standing ban on any one company or individual owning more than one club: Rights broker IMG took control of French club Strasbourg last year, and was looking to leverage its sporting pedigree across the region, but the EC stepped in and killed the deal.

Andrew Croker, head of IMG's football division, argues that owning Strasbourg makes sound commercial sense, as it is a top French club. "We believe we can add value to the management of the club through our management and marketing expertise," he says. "We would like to own more clubs, but we are restricted by the EC multi-ownership rules."

Another deal that came last year saw German media giant Bertelsmann A.G. invest $US16 million in former East German soccer champions Hertha Berlin. A supposed sleeping-giant club, it owns a stadium with a capacity of 75,000 that has remained largely empty since the German reunification.

While the team-acquisition trend seems destined to continue growing, the problem for a lot of people working in the television sports arena is that they simply cannot afford to compete at these levels. But they, too, are working to buy into programming-related ventures when possible — rather


Once seen as trophy assets, more media companies are taking a wide-angle look at sports teams.


Canal Plus' Paris St. Germain.

"We would like to own more clubs, but we are restricted by the [European Commission's] multi-ownership rules." *— Andrew Croker, London-based head of the soccer division at sports-rights broker IMG*

than just paying rights fees that wind up escalating over time.

With competitions like the X-Games in the bag, ESPN Star Sports, through a sister company called Sports Corp., has created events such as the Asian Bowling Tour, Hong Kong Marathon, Heineken Tennis Open, Grand Prix Badminton Championship and the Singapore Five's football tournament.

"The idea is to fill the gaps and niches in the schedule. It allows us also to work on a broader level to become more involved in the development of local sports, and help promote our service," says McDonald.

This situation is mirrored in Latin America, according to ESPN's Hamilton.

"We have looked into how to allocate our resources, and have investigated the possibility of buying into soccer clubs, but they are well established and probably have a justifiable market price," he says.

Instead, ESPN looked to the next tier of sports, and invested its time and efforts mainly in Formula 3 auto racing and basketball. Both had active associations and events, but both also had room for improvement.

"For three years now, we have been involved in running the Formula 3 races, and the difference is noticeable," says Hamilton. "The sponsors are now behind the sport in a way that they were not then. It is good for them because they get guaranteed coverage while we get bigger audiences."

Similarly, Alistair Gosling, managing director of London-based sports distributor X-Dream International, is preparing to launch a new global Extreme Sports Channel in March with European cable operator United Pan-Europe Communications N.V. He has been busy setting up investments in competitions.

"For the minority sports, we can go out and set up a competition tomorrow and control it," he says. Looking at the big picture, Gosling observes that "10 years ago, Rupert Murdoch paid £320 million [$US500 million] to buy rights to the Premier League, while Manchester United was valued at £10 million [$US15 million]. If he had bought the club then, Sky would probably be a lot better off now, [rather] than having to pay £623 million [$US1 billion]," says Gosling.

Paul Kaitcher, a stockbroker retained by Manchester United, disputes the idea that Sky may be overpaying for the team. "There are a number of opportunities for the club that can be explored as a result of this deal," he says. "There is the chance to start pay-per-view services, and also we can exploit the name worldwide, which will help to benefit Manchester United as a club." Indeed, Manchester United is already considered one of the most popular sports teams in the world.

Kagan's Mansell is wary of the level of PPV revenue used in the projections, however. "Making sports games PPV foregoes so much advertising revenue that the broadcasters are reluctant to do it in the U.S.," he notes. "The regional operators tend to make between 20 percent and 50 percent of their revenues from advertising, and that is continuing to increase. In Europe, these figures are much lower to begin with."

Just as the ownership of some European soccer teams is motivated more by status than sense, the motives behind team acquisitions by U.S. cable companies are unique to the market, and not necessarily part of a universal phenomenon, says Jim Troutman, executive vice president of consultancy Bortz Media and Sports, in Denver.

"In Philadelphia, Comcast is looking to protect its local cable market by controlling the core components," he says. "Whereas in L.A., with the Dodgers, it is likely that News Corp. will be looking to build it more as a global brand through its worldwide television interests. There is already quite a lot of interest in baseball, for instance, in the Pacific Rim, and it would make sense to use the Dodgers to help News Corp.'s interests there."

A spokesman for Fox Sports admits that local coverage is the primary motivation, and argues that greater exploitation is not necessarily part of the immediate plan. "There are very well-defined rules and regulations, which dictate what can and cannot be broadcast nationwide, internationally and via satellite, which limits our options," he notes.

"In L.A., Fox Sports West 2 will invariably carry the Dodgers, as they can always outbid the competition. But while Disney owns the Anaheim Angels [baseball team], ESPN [which is owned by Disney] cannot put them out every week. In fact, in L.A., our channel, Fox Sports West, carries their games," says the spokesman. "It stops one team from dominating."

In Europe, the issue for many of the media companies is how to use the clubs to spur interest in the new digital services springing up across the continent.

Murdoch is now turning his attention to Italy, home of one of the greatest soccer leagues in the world. Partnering with Telecom Italia in Stream, the goal is to launch a digital pay TV platform to rival that of Telepiú's D+ service, owned by Canal Plus and Italian broadcaster RAI.

Telepiú has an exclusive six-year broadcast deal with four of the biggest clubs: Juventus, Inter Milan, A.C. Milan and Napoli. The deals cover both PPV and D+ subscription services. Last year, these four teams took 89 percent of the paying audience, so their pull on television with Italians, who see soccer as a religion, speaks for itself.

One just has to look at the incredible values recently attributed to TV rights for certain sports to understand why the interest in acquiring teams directly is growing.

In Italy, Murdoch's strategy takes a few key factors into account: The Italian pay TV market is still relatively underdeveloped, with only about 5 percent penetration. And the market for soccer television rights has been valued at $US2.5 billion over the next five years.

The most publicized expenditure for sports rights is the extravagant amount paid by the U.S. networks for National Football League rights for the next eight years: $US18 billion.

Troutman of Bortz Media and Sports says that, at first, media companies bought into sports teams to exploit the strength of the sports brands for mutual gain.

But, "I think that, sometime ago, the relative asset-value to cash-flow relationship stopped being typical for sports interests. There are very few premium sports assets out there, so purely on supply and demand, it is likely that the prices will continue to go up. Inevitably, in the future, you will see more sports clubs owned by television companies."

In 1998, the revenue of the 30 Major League Baseball teams ranged from a high of $US170 million to a low of $US35 million. But, while Cablevision was negotiating last autumn to buy a stake in the New York Yankees, which valued the club at around $US850 million, franchise values vary greatly. A group recently completed a $US75 million deal to purchase the Kansas City Royals in the shadow of Murdoch's $US311 million acquisition of the L.A. Dodgers.

"If you can buy the whole operation at these prices, then it makes a lot of sense," says Kagan's Mansell. "In Cablevision's case, the rights alone for the Yankees are worth $US500 million. It also consolidates your position in the market, helping to cut out the chance of real competition."

And that seems to be exactly what this new trend is all about. ■

Multichannel NEWS International
THE WORLD'S SOURCE FOR TV AND TELECOM ANALYSIS

1999 Guide to Global SPORTS and Media Connections

British Sky Broadcasting's planned acquisition of soccer team Manchester United was one of 1998's biggest stories, but there are many examples of sports teams that are owned by media companies.

Our new sports connections chart, presented here for the first time, tracks the major alliances between the teams and the media players.

As you'll see, most of the connections involve U.S. or European teams, but others exist in markets such as Mexico, India, Japan and South Africa. By the end of this year, other alliances will likely join the list as the trend picks up more steam.

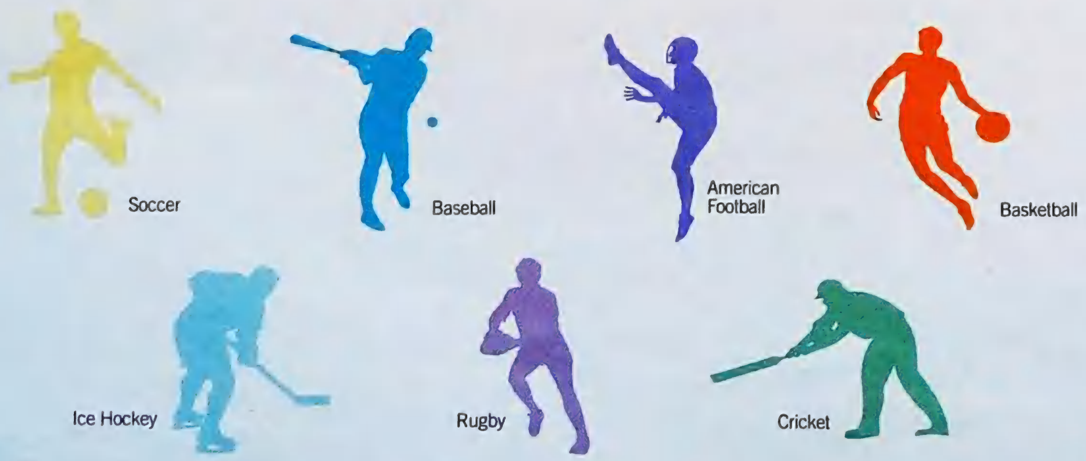
The chart was researched by Nick Masters and Leslie Goff.

Canal Plus (Fr.)
Major media companies

Fox Entertainment Group
Media subholdings

MSG Ltd. Properties
Sports-related subholdings

Veracruz
Sports teams



M-Net (S. Afr.)
- 100% → SuperSport United
- 50% → Boland Rugby
- 24.5% → Free State Cheetahs
- 50% → Northern Titans

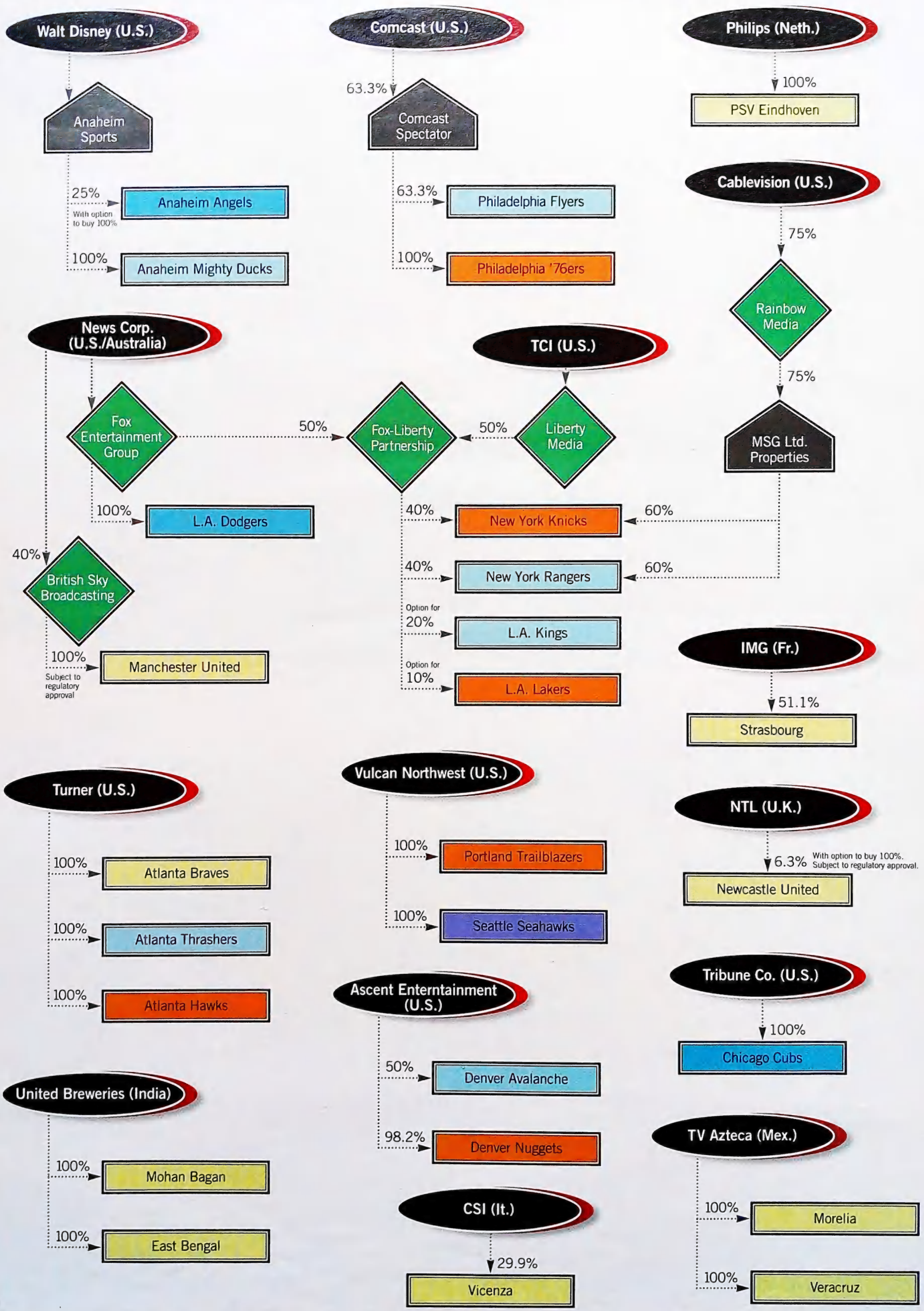
Grupo Televisa (Mex.)
- 100% → América
- 100% → Necaxa

Yomiuru Shimbun (Jap.)
- 100% → Kawasaki Verdi
- 100% → Tokyo Giants

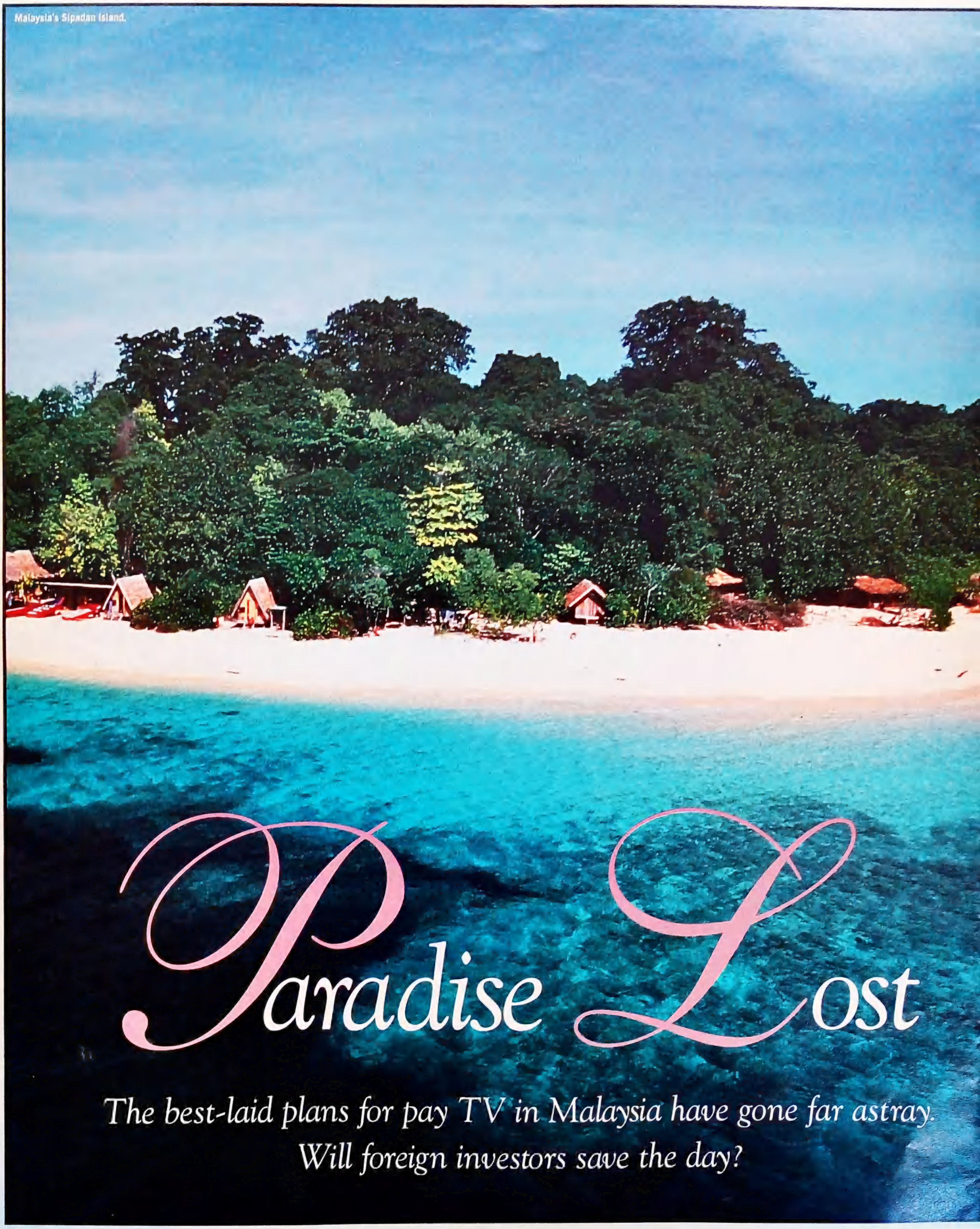
Canal Plus (Fr.)
- 56.7% → Paris St. Germain
- 52% → Servette

Bertelesmann (Ger.)
- 100% → Hertha Berlin

Fininvest (It.)
- 100% → AC Milan

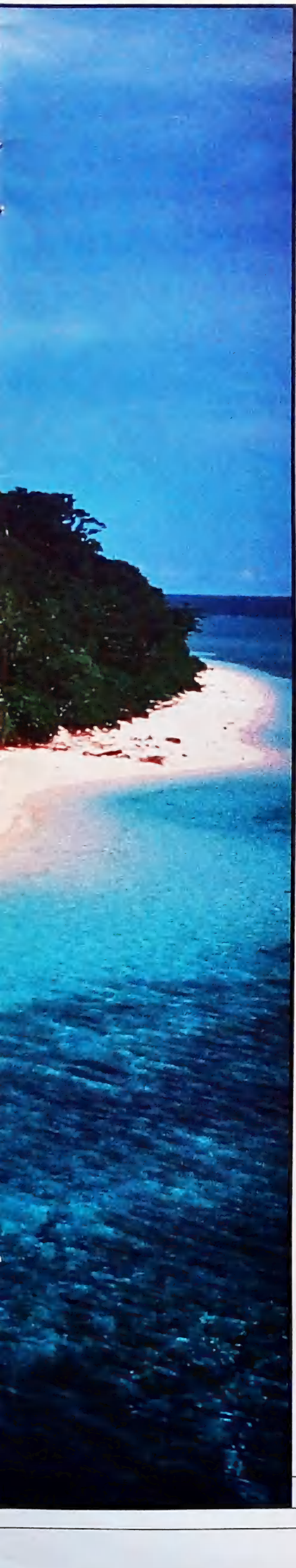

Walt Disney (U.S.)
Anaheim Sports
25%
With option to buy 100%
Anaheim Angels
100%
Anaheim Mighty Ducks
Comcast (U.S.)
63.3%
Comcast Spectator
63.3%
Philadelphia Flyers
100%
Philadelphia '76ers
Philips (Neth.)
100%
PSV Eindhoven
Cablevision (U.S.)
75%
Rainbow Media
75%
MSG Ltd. Properties
News Corp. (U.S./Australia)
Fox Entertainment Group
50%
Fox-Liberty Partnership
50%
TCI (U.S.)
Liberty Media
100%
L.A. Dodgers
40%
British Sky Broadcasting
100%
Subject to regulatory approval
Manchester United
40%
New York Knicks
60%
40%
New York Rangers
60%
Option for 20%
L.A. Kings
Option for 10%
L.A. Lakers
IMG (Fr.)
51.1%
Strasbourg
Turner (U.S.)
100%
Atlanta Braves
100%
Atlanta Thrashers
100%
Atlanta Hawks
Vulcan Northwest (U.S.)
100%
Portland Trailblazers
100%
Seattle Seahawks
NTL (U.K.)
6.3%
With option to buy 100%. Subject to regulatory approval.
Newcastle United
Tribune Co. (U.S.)
100%
Chicago Cubs
Ascent Enterntainment (U.S.)
50%
Denver Avalanche
98.2%
Denver Nuggets
United Breweries (India)
100%
Mohan Bagan
100%
East Bengal
CSI (It.)
29.9%
Vicenza
TV Azteca (Mex.)
100%
Morelia
100%
Veracruz

Malaysia's Sipadan Island.



Paradise Lost

The best-laid plans for pay TV in Malaysia have gone far astray. Will foreign investors save the day?



By Owen Hughes

If you ask Kaushik Shridharani, the essence of Malaysia's pay TV ambitions can be found in the men's room at the All Asia Broadcast Center. That gleaming facility is every bit as high-tech as the rest of the center, from which the country's sole direct-to-home (DTH) platform, All Asia Television and Radio Co. (Astro), is uplinked.

"Very impressive. They are high-end Japanese models with every sort of switch and attachment you could think of," says the Hong Kong-based vice president and media industry research analyst for Salomon Smith Barney.

The emphasis on high-tech and high-cost comfort runs throughout the Astro setup. Parent company Measat Broadcast Network Systems Sdn. Bhd. spent $US500 million on a state-of-the-art transmission center and two satellites. Its ambitions stretched far beyond Malaysia, with dreams of creating DTH platforms for markets such as Taiwan, Indonesia and even Africa.

But to a large extent, those dreams are disappearing rapidly. Malaysia's economic woes, and the political tensions surrounding the trial of former Deputy Prime Minister Anwar Ibrahim, have impacted Measat, as well as the country's other pay TV provider, wireless-cable operator Mega TV. Greg Creevey, network distribution and marketing vice president for Turner Broadcasting Sales Southeast Asia Inc., explains that both the economic woes and uncertainties about Ibrahim's trial have created a bunker mentality among consumers, who are reluctant to take on long-term budget commitments like pay TV.

But are Astro and Mega the victims of market conditions beyond their control? They are to an extent, but not entirely, in the opinion of some market observers and former Measat employees. Those people say the situation has been exacerbated by what they perceive as "errors" in the planning and execution of both services.

You can toss aside their views as a case of, say, 50-50 hindsight, but these sources point out that one of the primary problems with Measat was its strategy of providing the best of everything right from the start. As one observer comments, "Measat built a Rolls Royce service for a Proton market," referring to the Malaysian-built car that was conceived as a demonstration of the country's technological prowess.

On a brighter note, Creevey and HBO Asia's senior vice president of sales and marketing, Jim Marturano, say in the long term the country remains a highly promising market for pay TV.

It remains unclear exactly how Mega TV and Measat's top executives perceive their situations — or how they plan to push their businesses forward. Both companies refused requests for interviews for this story. But there's widespread speculation within the Asian industry that both companies may open their doors to foreign investors to bolster their ailing fortunes.

As 1998 drew to a close, Mega TV was generally seen to be in danger, having lost nearly 100,000 subscribers in 12 months, according to two Singapore-based sources. They say that around half of that total disappeared during two weeks in September, leaving around 45,000 customers. Over at Astro, subscribers numbered around 190,000 as of December. But while that number is certainly healthier than Mega's, the company added few subscribers over the year, according to an analysis of Measat's own figures.

Shridharani, Creevey and Marturano each agree that cash infusions are vital to keeping both companies functioning. But although there's a long list of distinguished companies that have either courted or flirted with the Malaysians, none has apparently followed up with a cash offer.

David Yap, Astro's chief of regulatory and corporate affairs, would only respond to requests for information about potential investors with the faxed comment: "We prefer not to comment on speculation" about potential new investment. Nevertheless, sources say that PanAmSat Corp., Singapore Telecom Ltd., DirecTv Inc., News Corp. and the Sultan of Brunei had all held talks with Measat at various times in 1998.

According to Yap, there are no regulations in Malaysia that limit the amount of equity that a foreign company could take in Measat. But the chances of overseas cash infusions were diminished last September when Prime Minister Mahathir Mohamad announced stringent controls on the movement of foreign exchange and the suspension of trading in the ringgit outside of Malaysia.

Measat's parent company, Binariang Sdn. Bhd., headed by media-shy media tycoon Ananda Krishnan, has also been courted. Last July, British Telecom plc agreed to take a 33 percent stake in it for $US420 million. The October date for finalizing the deal came and went without a conclusion, with some parties suggesting that BT had gotten cold feet. An analyst with a Kuala Lumpur-based brokerage firm comments, "The silence is deafening surrounding the Binariang/BT deal; there has been no movement at all since the summer."

Certainly, BT could not have been encouraged by the behavior of MediaOne International, which inherited 20 percent of Binariang when its corporate parent, U S West Inc., split in two earlier this year. MediaOne looked at the numbers and pulled out of a $US270 million initial public offering, a move that effectively killed the float. According to one news report, MediaOne refused to offer any reason for declining to go ahead with the IPO, which would have raised money to pay off short-term debt that Binariang built up developing its fixed-line and cellular telephone networks.

A former senior executive with Astro says that these days only the most pressing debts are paid. "There was a terrible battle with the courier companies. They were our bloodline, since they delivered so many of the tapes that were then carried on the channels. But they threatened to collectively not carry a single tape for Astro because they did not get paid."

The couriers probably aren't the only ones having difficulties getting paid by Astro. Like many other cable and DTH operators around Asia, Astro has been struggling to pay overseas suppliers whose contracts are written in U.S. dollars. In 1998, the ringgit lost 34 percent of its value against the greenback, leading Mahathir to impose the draconian controls on the movement of currencies.

Marturano notes that despite Malaysia's economic woes, Astro actually managed to boost its subscriber rolls by 30 percent last year. Yap's take is that Astro now has 200,000 subscribers, a rise of about 100 percent in the period from October 1997 to October 1998. Most of the increase came in the early half of 1998, with subscriptions stagnating in the second half of the year, according to industry sources in Singapore.

Still, Astro's gain outpaces those of most of its Asian counterparts. Bryan McGuirk, vice president and director of distribution at NBC Asia, says that, overall, cable operators in Asia gained 20 percent more subscribers during 1998. Hong Kong monopoly Cable TV's subscriber base has been stagnant at 400,000 since

the middle of last year. Indonesian DTH platform Indovision is struggling with 34,000 subscribers and an uncertain future following News Corp.-owned Star TV's decision last month to exit a management agreement. In Thailand, the newly formed Universal Broadcasting Corp. has about 300,000 subscribers, even though the companies that merged to form it, International Broadcasting Corp. and Universal TV, have been up and running since the early 1990s.

Astro has some major work ahead if it is to meet projections made at the time the platform launched in late 1996. At that time, chief operating officer Paul Edwards (who left the company at the end of November) said the company expected 1 million subscribers by the year 2000, and that 500,000 customers were needed to break even.

While Astro has serious problems to address, Mega TV is apparently on the critical list. At least that's the opinion of some sources, who recount a series of mishaps. The Kuala Lumpur analyst says bluntly, "Mega TV is a dead horse these days."

When it launched in June 1995 as a six-channel, microwave-delivered service, Mega TV's pricing suggested that it would be an attractive alternative for consumers. Astro subscribers have to pay about $US400 to buy a receiving dish and decoder. The monthly subscription fee is $US21 for a 20-channel service, with another eight digital-audio channels. In contrast, Mega TV provided equipment for free on a loan basis, with an installation cost of $US40 and a monthly subscription fee of $US13. Those costs certainly could have made the service affordable to a wider range of potential viewers in a country where the per capita income in 1995 stood at just over $US3,700. By 1997, per capita income was $US4,250.

But, according to one Singapore-based programmer, Mega TV's subscriber management system was a dud. Says the programmer: "They started off the year on a high of between 130,000 and 140,000 subscribers, but the [system] did not send bills out. Finally, when they got around to sending out the demand notices in August, they wanted all eight months to be paid at the same time.

"You just can't ask that of people at this time. They haven't got the money in Malaysia these days," he adds. The result was nothing short of catastrophic; in September, between 50,000 and 60,000 customers were lost, leaving a base of between 45,000 and 56,000 subscribers, according to sources in Singapore.

On the technical side, too, both Malaysian pay TV providers are fighting some fires. Dutch conglomerate Philips Electronics N.V.'s local unit, the Philips Group of Cos. in Malaysia, was the set-top decoder box supplier for Astro from the start. During 1997 and into 1998, it was in the process of developing a second-generation box that would accommodate Astro's plans to offer pay-per-view, near-video-on-demand and, possibly, interactive facilities.

But some sources say that the accord began to unravel last year when Astro was late with a $US20 million payment and Philips stopped working with the company. Measat officials weren't particularly concerned, according to one former Measat employee. "There was an issue of quality control with the second generation of boxes that were to have been introduced in 18 months' time, and a few of the trial ones were recalled because they were not working as well as they ought to have done," he says.

The source says Astro officials were also less than pleased with the deal because Philips had not concluded a manufacturing agreement to produce boxes in Malaysia. And the cost of importing the boxes from Belgium drove their price up. "Measat has claimed that the Dutch did not meet their contractual obligations about deliverables," according to the former Measat executive.

The exact state of Philips and Astro's relationship remains unclear. Says Yap: "Philips is the supplier of our present [set-top decoder] system." However, he would not comment on the progress of the arbitration between the sides.

Philips' Kuala Lumpur-based corporate affairs director, Margaret Ban, says, "We still have a very good working relationship with Astro." But while she contends that "our role as equipment supplier was never terminated," another Philips staffer in Kuala Lumpur claims the company is no longer working with Astro.

The Measat insider says that Sony Corp. executives and technical staff have paid repeated visits to the All Asia Broadcast Center, and he expects an announcement in the near future about a new supplier.


Kuala Lumpur's Petronas Twin Towers, another grand production.

A different type of technical problem is apparently at play for Mega TV. Shridharani says Mega TV's use of a wireless distribution service isn't reliable in the humid and often rainy tropical climate of Malaysia. "They have had a lot of problems with outages caused by precipitation," he explains. "There was lots of optimism about MMDS three years ago, but that has not been justified since."

A Singapore-based channel executive says that unlike Astro, which must be delivered through DTH, Mega TV's license is technology-neutral. What's more, he suggests that the company would do well to link up with a company like Telekom Malaysia Bhd., which could provide both hardwire infrastructure as well as funding, or an outside company with extensive pay TV experience. "You have to have someone who understands the fundamentals of the business, and it is clear they don't on their own," the executive says.

One measure of Mega TV's financial difficulties comes from the Kuala Lumpur analyst. That person says the results released last August by one of Mega's investors, Malaysian broadcaster TV3, shows a $US17.36 million loss on its 40 percent equity share in the company. Extrapolate that figure to spread it around to all the shareholders, and it rises to $US42 million.

It seems obvious that both companies are in need of a capital infusion, and soon.

An analyst who visited Measat in the spring says that his calculations showed the operation was running out of cash as far back as last May, and that the situation was almost certainly critical by the end of the summer. "They are living hand-to-mouth," he warns.

Shridharani believes that there is confusion within Binariang about whether the two Measat birds or the DTH platform are the company's most important assets. In his view, the country's perilous economic situation has made the company look at the birds and Astro purely as commodities rather than investments. The former staffer agrees, saying that Krishnan never planned to be a media tycoon because "it is the Malaysian way to build something and, if it makes money, sell it. I think that he thought Astro was going to make money."

There is also a feeling abroad that hubris played a part in bringing both Measat and Mega TV to their current states. Referring to the early projection of 1 million subscribers by 2000, Shridharani contends that Binariang started off with "unobtainable expectations."

He also says Measat ignored Salomon Smith Barney's advice to substantially diminish the scope of the operation. "They ignored us because they felt that they could not trim without making everything else collapse. They were inflexible; they were misguided."

The lavish facilities at the $US131 million all-digital broadcast center haven't helped the financial outlook. "It's like a huge sports complex; it's mammoth," says Marturano of the facilities. "They built a Cadillac broadcasting facility, and that has highlighted the cost-structure issue that they are facing now."

The former Measat executive comments that expanding the facilities gradually would have made more sense than investing in an all-singing, all-dancing system from day one. "The issue of getting everything going at once looked good in 1995 and 1996. The potential was huge. But I think there was a lot of arrogance about the men surrounding Krishnan," he says. "They [thought they were] were on the cutting edge of the Asian tiger economies, and they could do it all on their own financially and technically, without help from outsiders."

Some may construe this opinion as a case of sour grapes from a former employee. But this much is certain: With the Malaysian economy expected to grow by only 1 percent in 1999, both Mega TV and Measat will need to alter their strategies significantly if they are to survive and ultimately succeed. ■


Astro's control room.

MALAYSIA AT A GLANCE

Population: 21.2 million
TV homes: 3.1 million
TV penetration: 93 percent
Pay TV penetration: About 8 percent
Cable operator: Mega TV
Claims 120,000 subscribers; reportedly has 45,000 subscribers. Monthly subscription rate of $US13
DTH Satellite operator: Astro
Has between 180,000 and 200,000 subscribers. Monthly subscription rate of $US21.
Currency: ringgit
Per capita income: $US4,250 (1997)
Ethnic breakdown:
60 percent Malay, 31 percent Chinese, 8 percent Indian
Languages: Bahasa Malaysia, English

BLIPS ON THE SCREEN

Eastern Europe,
Continued from Page 6

Operators have chosen the consolidation route, because, they say, size matters in an industry where subscription fees amount to little more than what would be pocket change in other regions, and most new competitors have sugar daddies like the deep-pocketed, recently privatized telephone companies.

Programmers are evolving as well, and it's not just the local indies. Home Box Office is currently negotiating to sell a stake in its channel operations in Hungary, the Czech Republic, Slovakia and Romania to Sony Corp.'s Sony Pictures Entertainment and The Walt Disney Co.'s Buena Vista Television International. The three companies are already equal partners in HBO Poland.

"We continue to have discussions," reports Bill Hooks, HBO International's London-based executive vice president. "The studios are evaluating [exporting] the strategy in Poland to other markets." The move would be similar to HBO's channels in Latin America and Asia, in which the Hollywood studios also hold equity.

Taking on the partners would bolster HBO's offering in the face of growing competition, especially from nonpremium channels. The invigorated terrestrial stations air strong movie lineups, which often come from long-term "output deals" with studios. And Hallmark Entertainment Network, which its backers bill as "mini" premium, is now available on basic in Romania, Poland and the Czech Republic.


HOOKS

HBO made its name as a subscription-driver worldwide, even in the U.S., where it bowed in the early 1970s. But in Hungary, its Eastern European stronghold, its subscriber base fell to 200,000 last year from 210,000 in 1997. The decline is partly a result of last year's privatization of two government broadcasters in Hungary, and Central European Media Enterprises Ltd.'s (CME) introduction of a new satellite-delivered channel.

"There is just a lot more for people to watch," says George Douglas, managing director of HBO Hungary.

The less-glamorous operations side is also full of activity.

In telephony, the Czech Republic began privatizing its phone company in 1995, and even now it's still working to provide basic telephone service to Czechs.

Late last year, Romania's phone company was partially privatized, with a 35 percent stake sold to Hellenic Telecom Organization, the Greek telco.

Hungary was the first country in the region to privatize its telephone company, doing so in 1993. Now, the country's cable operators are grappling with the ramifications of phone company Matav Hungarian Telecommunications Co. Ltd. moving onto their turf. Matav launched a cable company, Matav Kabel, last year.

The move into cable "gives us synergies," says Ferenc Hamori, director of media program and business development at Matav. "We'll be able to save costs and network management can be shared."

Hamori says the company will spend $US13 million over the next three years to provide cable service to six neighborhoods in Budapest. Matav's foray into the cable business has infuriated the incumbent cable operators, which can't provide telephony services until 2002. What's more, Matav's two main owners are behemoths Ameritech Corp., of Chicago, and Germany's Deutsche Telekom A.G.

"What Matav is doing isn't illegal, but it is unethical," says Nimrod Kovacs, president of United Pan-Europe Communications N.V.'s Eastern European operations. He has been lobbying members of the Hungarian government to stop Matav's march into cable.

Gardner reports he's also concerned with finding merger partners.

"We are looking to consolidate. You need to with these kind of [subscription] rates," he says. In the last 18 months, his firm has purchased seven companies. Observers watching the region say that is a trend that will continue.

"There won't be any independent cable systems left after awhile," says Attila Horvath, audit manager of the cable practice at Arthur Anderson & Co.'s Budapest office. "They won't be able to be competitive, and they are all going to have to provide all services. Nobody wants to deal with many companies when they can just deal with one." ■

Ross,
Continued from Page 6

tional Telecommunications Union, a consortium of 142 governments. As such, its mandate is to provide satellite coverage on a nondiscriminatory basis worldwide, and it often does so at fixed rates. New Skies, as a spinoff, will function as a purely commercial operator, following the laws of supply and demand in this age of privatization and deregulation.

The company, with Ross as CEO, inherits more than $US100 million of existing business, five existing satellites, a bird under construction and prime orbital spots with global coverage.

The infrastructure is the easy part. The dirty work for Ross includes keeping a handful of projects in the air and creating a corporate framework and staff of about 75 people by early summer.

"We also have to exploit the assets transferred to us, which are only about 50 percent utilized," Ross says. He describes his inherited business as one that is largely based around wholesale contracts, saddled with the Intelsat fixed pricing. He's pushing hard to move to a market economy.

Next up is replacing some of the in-orbit satellites, which Ross admits are "nearing their end of life." Indeed, this single issue caused one critic to dub the company "Dark Skies."

Ross recognizes this aspect needs prompt action. "We will be procuring additional satellite capacity, and are planning for that," he says. "We have orbital slots beyond those that are occupied, and might want to fill those slots." What's more, "as part of the deal, New Skies picks up options for two birds from satellite-builder Matra Marconi Space S.A.," Ross says. He's planning for at least two additional C-band and Ku-band combo craft.

That New Skies will be busy is clear both to Ross and his competitors. Giuliano Berretta, satellite operator Eutelsat's director general, observes that "Bob Ross is a man of value, and they couldn't have chosen a better man for the job." However, he adds, "I think he is going to need a miracle," noting possible further saturation amid an existing transponder glut.

Ross counters that the international satellite communications market has grown along a "highly dynamic" curve. "It is no longer a question of Eutelsat or [Loral] Orion having the traffic, and us not," he says. "Eutelsat established a healthy business in Europe in the face of a dominant position from SES/Astra." Ross points out that Loral's business has grown from a single satellite to three. "Has it stopped PanAmSat [Corp.]?" he asks. "No. The point is the market has grown, and niches [have been] found."

Ross says he won't be ignoring North America or Europe, but stresses, "We'll move where we are already strong." New Skies' new "K-TV" bird will soon be ready at 95 degrees east to serve the Far East and India, exploiting the company's existing Indian TV traffic on Intelsat 703. "So India represents strong future growth for us, [as well as] expanding our product niches in the TV distribution business in Latin America, the Mideast, Africa and South Asia," he says.

But the biggest challenge lies in creating the right environment for an initial public offering that Intelsat has mandated for New Skies. "The objective is to have completed the IPO by the end of 2000," Ross discloses.

SES mounted a successful float last year, but Ross recognizes that the stock market is much pickier today about IPOs.

"We hope that will turn up, and there are signs that is beginning to happen," he says. ■

New Skies inherits more than $US100 million of existing business.

TeleNoticias,
Continued from Page 6

nel has performed well in several areas. "We were way above our projections in terms of subscribers, revenues and advertising," the source says. However, he adds that there were problems with costs — not surprising for a notoriously expensive programming genre.

Finding new revenue streams to balance out the expenses is all part of Serna's new scheme. When pressed for details, he explains that in speaking of a "hybrid operation," he means that TeleNoticias won't be wed to one form of distribution. Telenoticias is "not exclusively a pay TV challenge, but about getting eyeballs," he says.

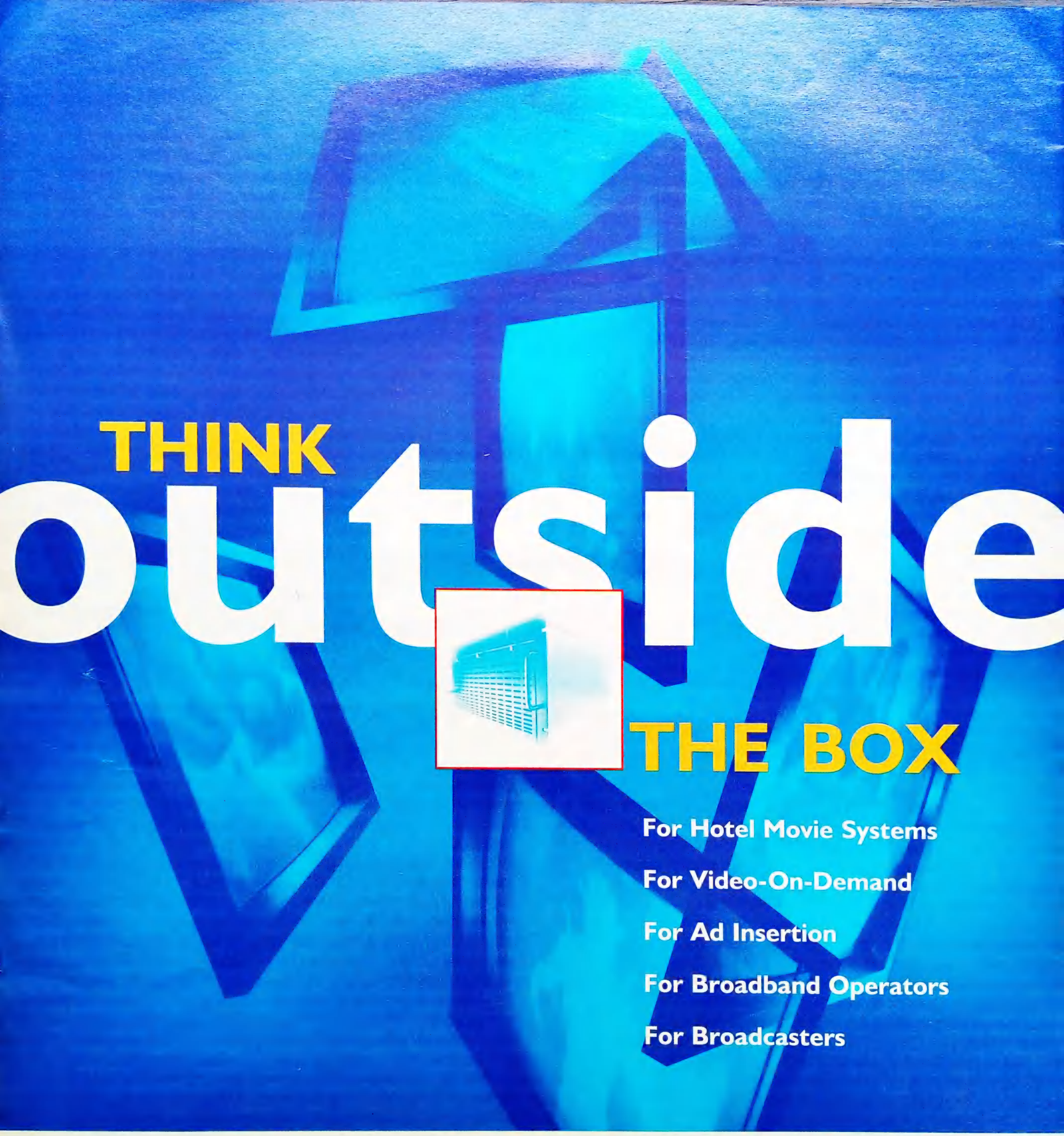
Serna is interested in a whole range of options, from syndicating individual shows, to selling programming blocks, to developing strong local-news content for the 24-hour channel. TeleNoticias is also hybrid in the sense that it currently sells both to pay and broadcast TV in Latin America.

A new emphasis also lies is in fostering partnerships across the region, not only to pump up distribution but also to develop local content. "We want to go beyond the network and develop local tie-ins," says Serna. Alliances have already been inked with two independent UHF stations, one in Miami, Fla., the other in Caracas, Venezuela. Further south, in Argentina, TeleNoticias is allied with news channel, CableVisión Noticias and broadcaster América.

Medcom also sees prospects in taking TeleNoticias into markets in the United States that have big Hispanic populations. Currently, it provides evening newscasts to U.S. Hispanic broadcaster Telemundo and is distributed on Liberty Media Group's Canales ñ Spanish-language digital package of channels. To expand its reach north of the border, Medcom is eyeing the purchase of an independent television station in California, though at press time Serna was not prepared to discuss details.

Medcom is also scouting out possible distribution partners in its native Mexico, where it is reportedly talking to wireless cable operator MVS Multivisión and national broadcasters Televisión Azteca S.A. and Grupo Televisa S.A., among others.

Serna appears confident that Medcom can outperform the toughest rivals. He says that CNN International, TBS' English-language news service, was designed for the "traveling American", and has not translated so effectively into CNN en Español. As for the Spanish-language Eco, Serna says Televisa has too many other concerns to really make it a top-notch service. "Our specialization is our advantage," he says. ■


THINK
outside
THE BOX
For Hotel Movie Systems
For Video-On-Demand
For Ad Insertion
For Broadband Operators
For Broadcasters

Multichannel News International CED

BROADBAND INTERNATIONAL

Tracking Global Technology Developments in Voice, Video and Data

Watch This Space

There once was a time — as an observer of and reporter on cable-TV video technology — when all I had to do to get a read on what was important in the world was follow the fortunes (or misfortunes) of North American operators and equipment vendors.

Apart from a few locations, little groundbreaking activity related to cable TV occurred anywhere outside the U.S. In fact, at times, it was difficult to unearth groundbreaking developments within the U.S., since the operators were quasi-monopolists with no real competitive threats to hold back their unbridled growth.

As a result, the industry often endured cycles of roller-coaster proportions — enjoying good times when large operators like Time Warner Cable and Tele-Communications Inc. spent lavishly, and grimacing when the money spigot released a mere trickle.

BY ROGER BROWN

IN SYNC

But those days are gone — and not only in the U.S. Around the globe, competition is intense. Network operators aren't focused solely on video services anymore, and equipment manufacturers are finding receptive welcomes in dozens of locales.

Latin America and Asia were flourishing until 1998's global economic pains put most projects on hold. But, fundamentally, consumers around the world hunger for greater connectivity with their neighbors, more sources of information and more entertainment choices — whether they come over their personal computers, their television sets or their telephones.

Increasingly, they want that information faster. Over the coming years, we'll witness the end of programs that were designed for a single information appliance. Instead, people will track their investment portfolios over the TV; they'll make phone calls over cable TV networks; they'll watch videos over a telephone network.

As a consequence, *Multichannel News International* in this issue is debuting "Broadband International," a mini magazine-within-a-magazine dedicated to tracking global technology developments in voice, video and data over broadband networks. Network operators of all kinds are dashing to capitalize on broadband technology, which opens up networks to scores of new applications and potential users. From traditional cable-TV networks to twisted-pair-based telecommunications networks, from new terrestrial-wireless services to space-based satellite networks, it's our intention to cover them all.

So watch this space for the latest in-depth information about global broadband developments. See how others are successfully making information technology work for them. Read how new technology promises to change the way we live.

Gone are the days when I can reach out to a single source and have my finger on the world's pulse. To keep me in touch, I'd like to hear your ideas and learn your thoughts about the broadband industry and the developments within it. Feel free to call me any time at (1) 303-393-7449, or e-mail me at Rbrowner@aol.com.

No Roar Like Before

A Quieter Tech Buzz Colors the Western Show; VOD, IP Telephony Grab Attention in Anaheim

BY LESLIE ELLIS

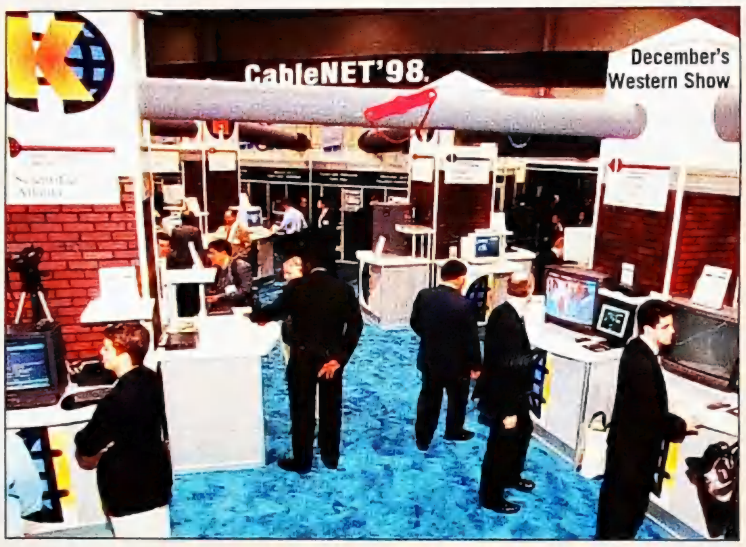
Video-on-demand, Internet-protocol telephony and in-home networking set the technology trend at December's Western Cable Show, held in Anaheim, Calif.

Although those developments were expected, there were also pockets of news dotting the landscape, with digital set-top applications near the top of the list.

Unlike years past, however, there weren't the kind of head-turning announcements that have so defined the Western Show. The "quiet period" at multiple system operator (MSO) Tele-Communication Inc., in advance of its merger with AT&T Corp., was partly the reason, observers said. "TCI can't make the big promises this year, and the rest of us are busy with other stuff," reckoned one senior cable TV executive.

Perhaps the biggest trend coming out of this year's Western Show was the resurgence of VOD. More than a half-dozen vendors showcased VOD at their booths, while press briefing rooms turned up operators ready to buy the gear

Continued on Page 32



December's Western Show

Japan's Government Guru

The Japanese cable industry is as intriguing and mysterious to Westerners as the country's culture and mannerisms. Plagued by low penetration rates, the industry is squarely in third place behind satellite operators and a strong broadcasting base.

That situation is slowly, but surely, changing. The Ministry of Posts and Telecommunications [MOPT] has, as part of its charter, a desire to strengthen the cable industry's competitive position. To understand the MOPT's vision and goals, "Broadband International" editor Roger Brown and *Multichannel News* senior broadband editor Leslie Ellis interviewed Masahiro Yoshizaki, director, Cablecast Division, of the MOPT's Broadcasting Bureau. An edited transcript of that conversation follows.

BBI: How would you characterize the Japanese cable market? Is it successful, mediocre or not so good?

YOSHIZAKI: There's a very big discrepancy between the independent cable operators and the small operators who are only providing retransmission services. So, we find that the larger independent cable operators are profitable; and out of those, half are making single-year profits while the remaining half [are making] cumulative profits.

However, the smaller operators who are only providing retransmission services — because their equipment is outdated and requires innovation — do not have the funds to invest in new facilities or [compete with] the digital [satellite] channels. Therefore, they find their businesses in dire straits.

YOSHIZAKI

BBI: Do you view the larger operators as successful?

YOSHIZAKI: There are some larger operators who are not successful, but I believe, in general, that they are showing upward trends in their business reports.

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BROADBAND INTERNATIONAL

New Products

Non-compressed digital transport system

Philips Broadband Networks is introducing its 600DXT multi-channel digital-interconnect system, a fiber optic solution that enables hybrid fiber-coax operators to consolidate their manned headends and centralize network control activities, enhancing signal quality and reducing operating costs, according to the company. The non-compressed, digital transport system is available in an NTSC eight-channel version and a PAL six-channel version. Operators can use the system to interconnect regional or statewide networks driven by a single master headend, while accommodating custom channel lineups, local programming and targeted advertising. The transport system provides operators with the capabilities for wide-area interconnects, supertrunking and interconnecting over telecommunications fiber, leasing wavelengths to "outsiders" for video transport, local-interest analog programming, zoned local advertising and PEG (public, educational and government) and broadcaster program backhaul.

Philips Broadband Networks
64 Perimeter Center East
Atlanta, GA 30346 USA
Website: www.be.philips.com/pbn

Optical attenuation test kit

Fiber Optic Network Solutions (FONS) Corp. has expanded its product line to include a new Optical Attenuation Kit, which provides a method to measure optical performance of fiber optic networks for data, telco and cable TV applications. The kit includes a full-function optical-power meter calibrated for 850 nm, 1300 nm and 1550 nm, as well as an LED source for 850 nm and 1300 nm wavelengths. Both units are housed in a rugged carrying case. Used in conjunction with the FONS Connector and Termination Tool Kit and Consumables Kit, the attenuation test kit provides the tools needed for field termination of fiber optic networks.

FONS Corp.
71 Lyman St.
Northboro, MA 01532 USA
Tel: (1) 508-393-4268
Fax: (1) 508-393-3657
Website: www.fons.com

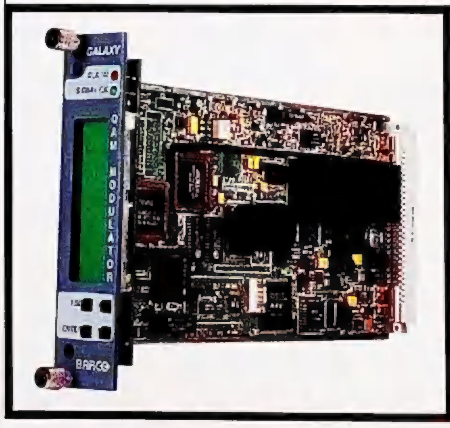
Ingress location

New from Electroline Equipment Inc. is its ClearPath system for remotely pinpointing the source of unwanted noise in the return path of a hybrid fiber-coax network. The system slices ingress location time from hours to minutes, reducing maintenance costs and network downtime, according to the company. It can also isolate the source of ingress down to the level of a single-subscriber drop cable. ClearPath also provides real-time monitoring that is non-disruptive to the normal operation of the cable network. The system is comprised of a software package and controller, a spectrum analyzer at the headend, a test-point selector, CPM-2 units installed in the network and Cable Ingress Management Software (CIM). The Test Point Selector is a signal switch that manages the process of sequential testing of each return signal by the spectrum analyzer.

Electroline Equipment Inc.
8265 St. Michel Blvd.
Montreal, PQ H1Z 3E4 Canada
Tel: (1) 514-374-6335
Fax: (1) 514-374-9370
Website: www.electrolinequip.com

Headend gear

Barco is launching a new line of headend products for both analog and digital cable systems. The company's Galaxy multi-standard digital modulator supports OpenCable standard requirements, and the Orion analog modulator supports the MN transmission standard, according to Barco. The new product line comes in a vertical-mount, modular-housing, following design trends in North American cable headends, according to Barco. The Galaxy QAM modulator complies with ITU-T J.83 standards, annex A (DVB), B (ATSC) and C (Japan). It supports a range of data rates, signal bandwidths and QAM constellations. The modulator, including full functionality and options, comes as a compact, hot-swappable single-board module with front-panel control.



Barco is also offering Pyxis, a DVB/ATSC-compliant, single channel, MPEG-2 encoder.

Barco
3240 Town Point Drive
Kennesaw, GA 30144 USA
Tel: (1) 770-218-3200
Fax: (1) 770-218-3250
Website: www.barco.com

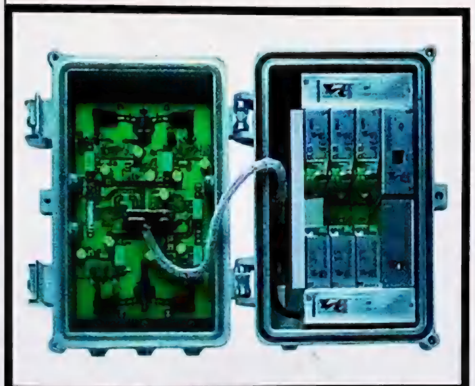
RF transceiver module

California Eastern Laboratories' Integrated Solutions Group (ISG) has added its new ISG3300 Series to its line of two-way RF-transceiver modules for cable modems. The modules, which ISG says are MCNS-compliant, are designed to interface directly to Broadcom Corp.'s BCM3300 cable modem IC. Like the BCM3300, which combines a QAM modulator, demodulator and media-access control on one piece of silicon, the new module combines all active and passive RF functions in a single, well-shielded, drop-in module. The design provides typical signal-to-noise performance of 37 dB for 64 QAM modulation, and 35 dB for 256 QAM, with no post FEC errors, over an input range of -20 dBmV to +15 dBmV. In addition, the company has added several new features to the ISG3300 Series: Transmission anti-aliasing filters, digital gain control for the transmitter, expanded dynamic range and gain-controlled IF output options of up to 43.75 MHz for direct sampling.

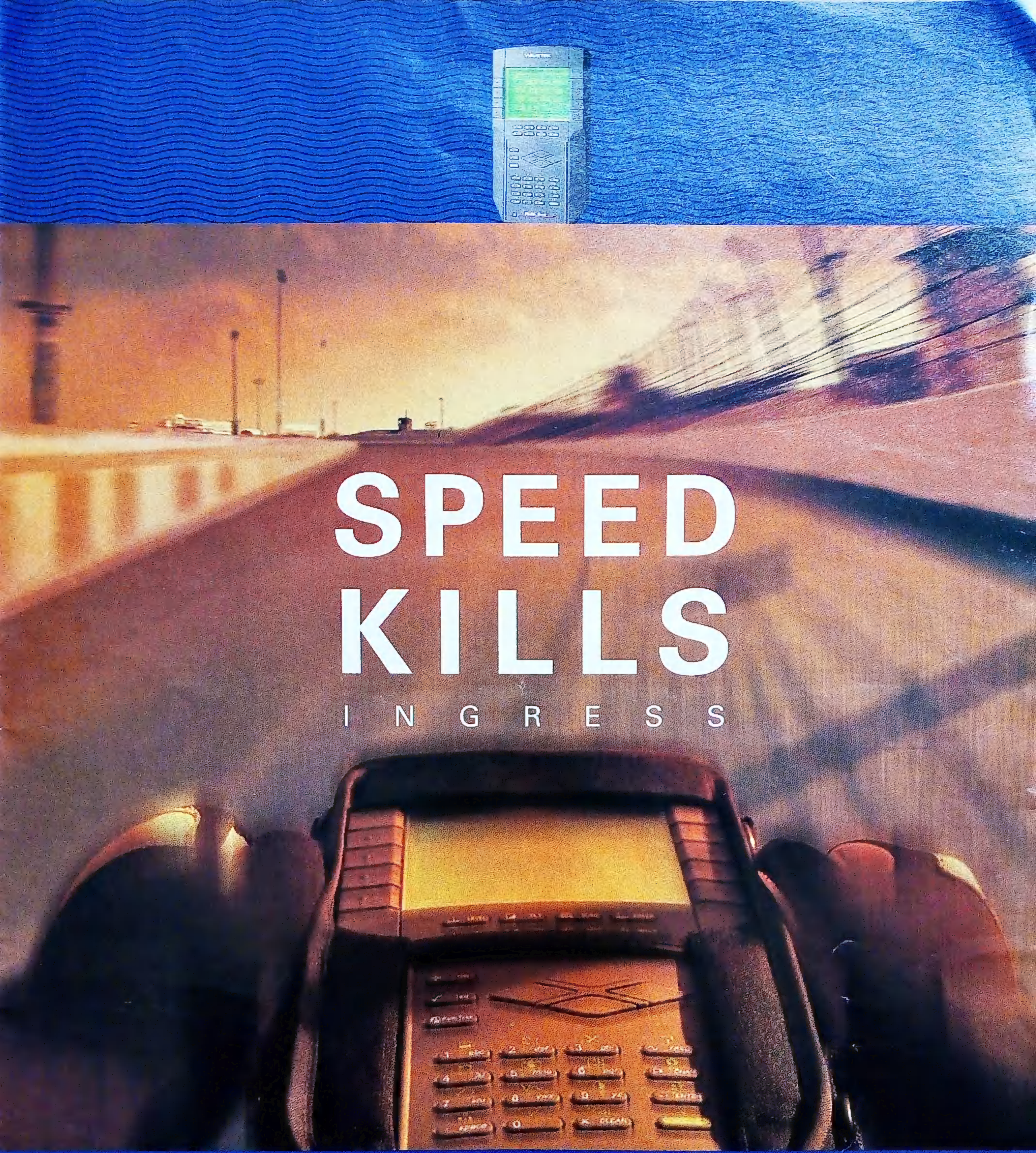
California Eastern Laboratories
4590 Patrick Henry Drive
Santa Clara, CA 95054 USA
Tel: (1) 408-988-3500
Fax: (1) 408-988-0279
Website: www.cel.com

Scalable node

Silicon Valley Communications has announced the availability of its four-output scalable node, which contains two redundant optical-receiver modules, up to four return-path transmitter modules, four RF outputs, dual redundant power-supply modules, network-management modules, and RF forward and return-path routing modules. The node accepts optical input power from -3 dBm to +2 dBm, and has low power consumption in the 60-watt range. Both optical receivers and optical return-path transmitters are designed for either redundant or parallel operation. When the receivers are connected redundantly, automatic switching occurs to a diverse optical path; when connected in parallel, each receiver can be connected via the optical-input routing module to two RF outputs.



Silicon Valley Communications
3515 Monroe St.
Santa Clara, CA 95051 USA
Tel: (1) 408-247-3800
Fax: (1) 408-247-8584
Website: www.svci.com


SPEED
KILLS
INGRESS

BROADBAND INTERNATIONAL

Japan's Guru,
Continued from Page 27

BBI: There seems to be a playing field here that isn't necessarily level for cable operators, given the strength of the broadcasters and satellite companies. Can there be something done to help cable operators and consumers realize the benefit of that broadband pipe to the home?

YOSHIZAKI: When you say it is not level, what do you specifically mean?

BBI: The multichannel offerings from the satellite services, the dominance of national broadcaster NHK and the fee that NHK charges over and above cable usage. This is very different from the U.S. model.

YOSHIZAKI: I think we have a very different situation in Japan. For instance, this year we saw a [dramatic] increase in subscribers, because they are able to watch the [satellite-service channels] through the cable. And, we had the Olympics, which triggered many subscribers. SkyPerfect TV, which is also [a satellite service], also induced many to subscribe. I believe that we have no restrictions, for instance, on entrance into the cable industry [of new or bigger players], and subscribers have options as to which type of TV services they may choose.

BBI: Do you think, then, that the cable operators here are just impatient?

YOSHIZAKI: I believe that some of the operators are having difficulties because they have started their businesses in regions that are difficult, after the easier markets had already been taken.

I believe that situation will be changing in the very near future as we see the digitization of [satellite] and off-air [services] in the year 2000. Small-scale operators will not be able to accommodate the digital services, and therefore we [will] see mergers and consolidations of these small businesses into the MSOs. That is a time when the MSOs will be able to find business opportunities that they do not see at the moment.

BBI: When you're talking about large operators having difficulties, which ones are you talking about?

YOSHIZAKI: I think, specifically, Titus [Communications Corp.], because it has wired the Sapporo area, which is a very [dense] city. And the [dense] cities are always difficult because of the costly investment required for the building of the infrastructure. [Also], there are fewer people who watch TV because they have other recreations. And the rural, small cities, with their low population densities, are also very difficult. The rural, medium-sized cities or suburban-type medium cities are the best for the cable operators. [But] the medium-size cities are already taken by other operators.

BBI: If you were in the shoes of a cable MSO having difficulties, what would you do to increase cable penetration?

YOSHIZAKI: If I had the answer to that, I would not be a public officer. (Laughs)

First of all, I would focus on Internet-over-cable, especially in the urban areas, because there is a high population of PC users who, in most cases, have to use the Internet via [Nippon Telegraph & Telephone Corp.] lines, which are very expensive as well as low-speed.

On the other hand, I believe the telephony services are not a promising market or product because the investments that are required for building the infrastructure are very high. The telephony market is saturated. The penetration rates are as high as they can get.

BBI: Is the MOPT interested in

the U.S. cable modem standard, and how important is that ability to take hardware from one house to another?

YOSHIZAKI: I believe that we may be using different configurations and methodologies in Japan, but we need to have some standard to promote [greater] penetration of the services and have the economies of volume. I think we will be using what the operators all agree to and take advantage of.

BBI: So that's not something the MOPT will get involved in?

YOSHIZAKI: The MOPT will be responsible for making the validation of whether this is compatible to the environment in Japan. But I cannot say at the moment.

BBI: What was your list of goals for the cable TV industry when you came into office?

YOSHIZAKI: In the Telecommunication Deliberation Council, we had announced the official goals for the CATV industry, and they are penetration of 60 percent in the year 2010; 200 to 250 channels; and 100 percent digitalization.

Currently, [we count] 6.7 million subscribers, which amount to 14.8 percent penetration. If that is extrapolated to the year 2000, that would be 20 percent; and further into 2010, it would be 60 percent. These are the goals I have set for the CATV industry.

I believe that in the year 2010, we will have a very different image of the CATV environment. We will probably see some interactive networks. And in some regions we will have expanded telephony.

BBI: It took the U.S. 50 years, with no satellite competition and no subscription fees for broadcast television, for cable to reach 60 percent penetration. Given that, the goal seems very ambitious.

YOSHIZAKI: Well, for one, Japan is a very small country. Therefore, building the infrastructure is less costly compared to the U.S. At the same time, when Japanese people start working, they do not stop. And from the content [providers], there is a very high need for local information. Therefore, currently, we see a drastic increase in penetration rates on a yearly basis — going up to 20 or 30 percent.

"I believe that telephony services are not a promising market or product."

– Masahiro Yoshizaki, director, Cablecast Division, MOPT

BBI: The fee that Japanese residents pay to public broadcaster NHK, whether they watch it or not, presents a barrier to cable operators getting a bigger penetration. Would the privatization of NHK help reduce that barrier?

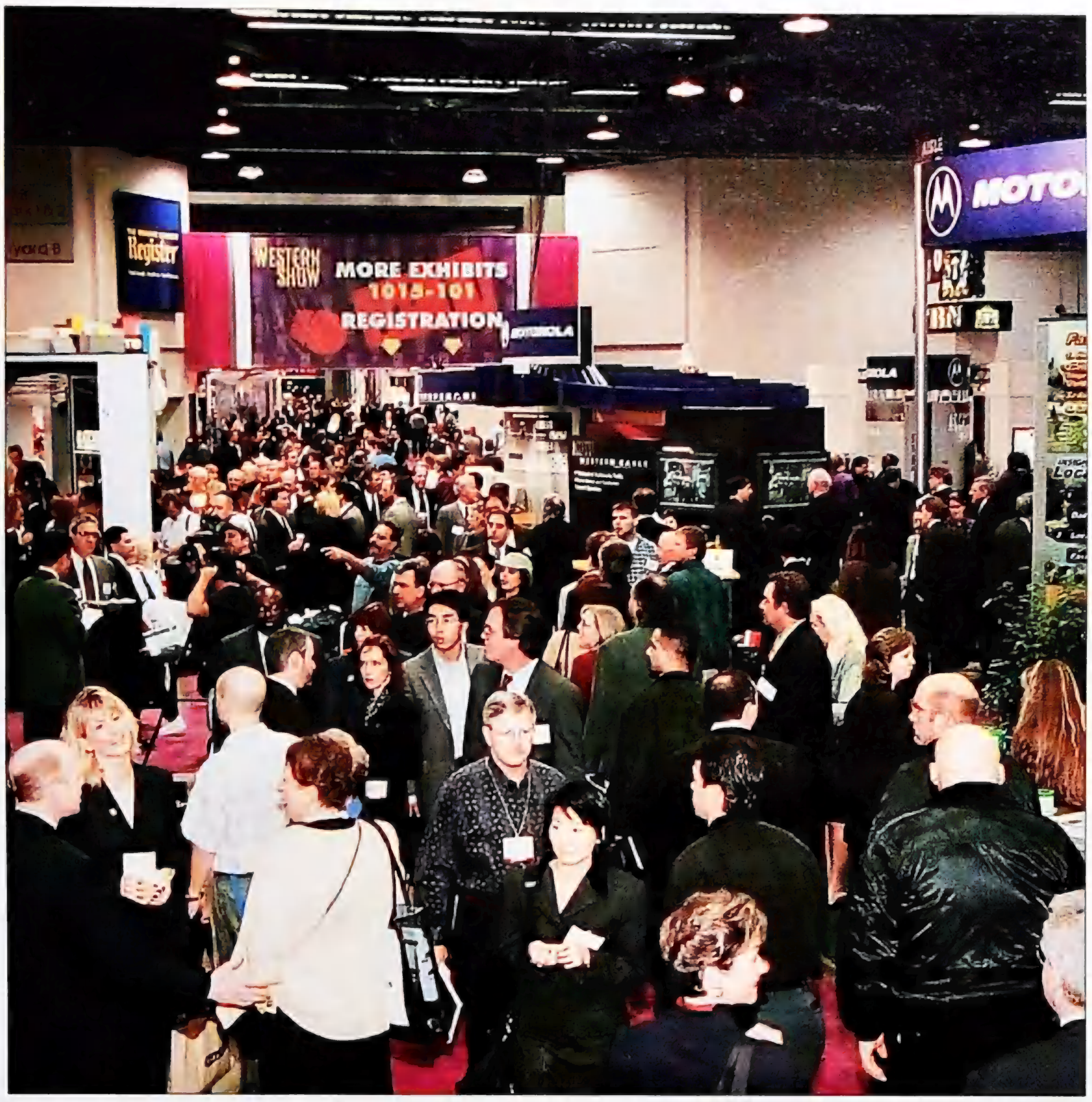
YOSHIZAKI: There is a cultural difference between the U.S. and Japan. Although NHK is not a government organization, it has public facets. If the public consensus changes, then we would change our policies. However, currently I believe that if we eliminate the NHK fee, the subscribers of CATV would decrease. So we see it as a boost to CATV rather than a detriment.

BBI: Do you have any idea of how many big MSOs there might be 10 years from now?

YOSHIZAKI: I think that in about 10 years we will see not so much an MSO but a large operator that will be incorporating both telecommunications and broadcasting services, so they would be large data-network operators. ■

Western Show,
Continued from Page 27
as the first step in pulling in movie and content-rental revenues.

The biggest taker was the Lenfest Group, which will extend its VOD contract with Diva Inc. to all of its cable systems in Pennsylvania, New Jersey and Delaware, starting immediately. Plus, MSO Insight Communications said it would deploy Diva as part of a "core digital tier" in Columbus, Ohio, Rockford, Ill., and Bloomington, Ind.



Perhaps the biggest trend coming out of this year's Western Show was the resurgence of VOD. More than a half-dozen vendors showcased it at their booths.

ON-DEMAND PLAN

Diva also plans to add on-demand content — not just movies — from ESPN, Bravo and Playboy. Bravo will contribute its "World Cinema" content, starting on Cablevision System Corp.'s Monmouth, N.J., system in the first half of 1999.

Lenfest, which runs systems serving 1.1 million homes, plans to offer Diva's VOD service to all of its digital-video customers, officials said. That links to Diva's work integrating its service with General Instrument Corp.'s DCT family of digital set-tops, which Lenfest is rolling out. Lenfest was Diva's first deployment, in an arrangement that started more than two years ago.

Paul Cook, chairman and CEO of Diva, said he's "delighted" at the progress made since Diva's debut at the Western Show in 1997.

Cook also said that Diva will start to turn a profit after operating a 2,000-stream server in a 20,000-home node for two years, at a 10 percent penetration rate based on four buys per home, per month. "At that point, we go cash-flow positive," he said.

TVN Entertainment Corp. announced it will launch a digital-VOD service beginning this year to complement its 32-channel near-VOD service.

The company, along with Pennsylvania-based Vivid Technology, has developed a VOD service that's compatible with any digital set-top box that is interoperable with GI's technology, said Jim Ramo, president and chief operating officer of TVN.

Any cable system with a hybrid fiber-coaxial (HFC) two-way plant can implement TVN's new VOD movie-programming service for its customers. The company will begin testing the service on several yet-to-be-determined systems, Ramo said.

Intertainer Inc., SeaChange International Inc., ConCurrent Corp. and StreamGate Inc. also figured heavily into the VOD buzz.

VOD wasn't the only high-profile service at the show. IP telephony was exhibited all over the show floor, despite open admissions by the vendor and MSO communities that the technology is years away from widespread use.

"There's just an incredible amount of hype about IP telephony," noted Michael Harris, an analyst with Phoenix-based Kinetic Strategies Inc.

At the same time, Data Over Cable Service Interface Specification (DOCSIS) modems were everywhere, but nowhere. Despite a lack of certified product, cable modem suppliers pressed on with advanced feature sets such as quality-of-service guarantees and IP support.

For starters, Motorola Inc. unveiled its "MTA-1," adopting PacketCable (an IP-based cable-telephony specification currently being developed by Cable Television Laboratories Inc.) parlance for "Multimedia Terminal Adapter." The MTA-1 sits between a common household phone and a cable modem, to make the translations of circuit-switched to IP-based phone signaling.

Vienna Systems Corp., which is being acquired by Nokia Corp., dominated much of the buzz, exhibiting its "IP Shuttle" adapter in six different booth locations. The IP Shuttle, also designed in coordination with the PacketCable MTA, was connected at the Western Show to 3Com Corp.'s cable modems and headend hardware.

FIRST TO CONSUMERS

Dan MacDonald, vice president of marketing for Ontario, Canada-based Vienna, said that the IP Shuttle — which was used as the reference design for the PacketCable MTA — is perhaps the first incidence of packetized phone traffic traveling all the way to consumers.

"So far, IP phone has mostly been about long-distance alternatives — you dial a number, and then a whole set of other numbers," explained MacDonald, who added that "bringing IP to the home puts us ahead of the game."

Intel Corp. was also in the IP-telephony game. It debuted videoconferencing software for PCs performing at high speeds – i.e., via cable modems or asymmetrical digital subscriber lines (ADSL) — over the Internet. Dwayne Canfield, product manager for Intel's Architecture Lab, said that tests are already under way with Internet Cable Corp. over U.S. Cable Coastal Properties' system in Charleston, S.C.

Canfield said that because the Intel solution is software-centric, operators don't need to buy or tweak their existing or planned high-speed data systems to make it work. "It's really transport independent. As long as you have an IP stack, you're there," he said.

Com21 Inc. also threw its IP-telephony hat into the ring, demonstrating a cable modem-based, toll-quality telephony system. It works as a slide-in module that plugs into Com21's ComPORT cable modems, executives said, so that cable operators can sell toll-quality voice services to the "high-margin, high-revenue enterprise" markets, executives said.

When equipped with the module, the Com21 modem supports up to two phone lines and eight PCs. Pete Fenner, president and CEO of Com21, called the development a breakthrough in telecommunications technology. "This is the beginning of a new era for cable operators, businesses and consumers," he said.

Meanwhile, under the chassis, Broadcom Corp. introduced a reference design for a chip that integrates the cable modem, IP telephony and full-motion IP videoconferencing. The design is built around Broadcom's BCM3300 single-chip cable modem, and will enable manufacturers to build IP-telephony and video-conferencing capabilities into next-generation cable modems, wall-mounted network-interface units and set-top boxes, executives said.

Amid all that, 3Com said it and 8x8 Inc. will form a laboratory in Santa Clara, Calif., to accelerate the development and deployment of IP telephony that complies with the PacketCable specification. In the effort, 3Com will contribute its cable-modem systems, and 8x8 will contribute both audio and video MTAs based on the company's "Audacity" IP-telephony technology, executives said.

Also in the 8x8 suite of announcements was interoperability with NetSpeak Corp. and Motorola Inc. on broadband IP telephony, based on the SGCP protocol. The three demonstrated their collaborative work together at the Western Show, showing that calls can be placed between 8x8's "packet gateway," Motorola's MTA-1 and NetSpeak's "call agent" software. Specifically, phone calls were placed between the 8x8 and Motorola gateways, using standard touch-tone phones, while the NetSpeak call agent routed the call across a cable network.

In-home wiring techniques — useful in a digital future in which movies, TV programs and CD-quality audio zip around to numerous display and listening devices in the home — were also highlighted.

Avio Digital Inc., the company owned by entrepreneur Paul Allen's Vulcan Ventures Inc., kicked off the home networking bonanza, showing up with a "MediaWire" technique linked to Scientific-Atlanta Inc.'s Explorer 2000 set-top boxes. The idea: Set-tops can be used to control digital

video, audio, computer-data services, telephony and home controls throughout the house.

"As consumers bring more and more digital devices into the home, they will want to easily connect the equipment and services together so they can be accessed from anywhere in the house," said Don Burtis, acting vice president of technology for San Carlos, Calif.-based Avio.

General Instrument Corp., S-A's set-top rival, said at the show that it would work with Sony Corp. to come up with home networking solutions.

In Avio's view of the world, set-top boxes are outfitted with a MediaWire interface, then become the main gateway for signals to travel over ordinary telephone wiring to end devices. That means cable-modem data can be directed to other PCs in the house without installing new network cables, Burtis said.

MAXIMUM MILEAGE

Wiring distance tops out at about 100 feet between nodes, Burtis said, using "simple, category-three phone wiring." Using higher-grade, category-five wiring extends that distance to over 300 feet, Burtis said. "In either case, a MediaWire home network can have a total cable length of over 2.5 miles," he said.

The network can easily connect two devices, or up to 100 devices in a loop, he said, describing top data rates at 88 megabits per second. That's enough to carry four MPEG-2 channels, 16 audio channels (at 24 bits each), eight phone lines and more than 3 mbps of cable-modem data.

MediaWire was designed to "plug and play," officials said, so that once devices are connected, the network automatically configures itself. Avio officials repeatedly called the technique "cost effective," but declined to discuss pricing specifics. S-A officials described the cost addition to the Explorer 2000 as "nominal."

There's also wireless signal distribution — a technique preferred by El Dorado Hills, Calif.-based ShareWave Inc., which debuted a way to send data around the home at speeds of 4 mbps. ShareWave's solution, code-named "Osprey," includes a chip set, radio and a reference design, officials said. Prototype models were expected to be available this month.

The company, which calls its strategy a "multimedia furnace," works by locating a central hub inside the home — a personal computer, residential gateway, or other server — as the collection point for digital content that is then wirelessly distributed to devices throughout the home. The "gateway" could also be a set-top box, company officials noted.

"As consumers bring more digital devices into the home, they will want to easily connect the equipment."

— Don Burtis, acting vice president of technology, Avio Digital Inc.

In-home electronics that are outfitted with the ShareWave digital wireless device can then share real-time, full-motion video, computer-generated graphics and CD-quality audio, executives said.

Motorola is also in the home-networking game, with plans for both a wired and a wireless approach. It aims to develop a gateway that integrates a cable modem with a "no new wires" data network, officials said at a press briefing.

As part of that effort, Motorola licensed technology from Tut Systems that will enable it to send data over existing in-home telephone wiring. ■

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Taking Stock

BY MIKE GALETTO

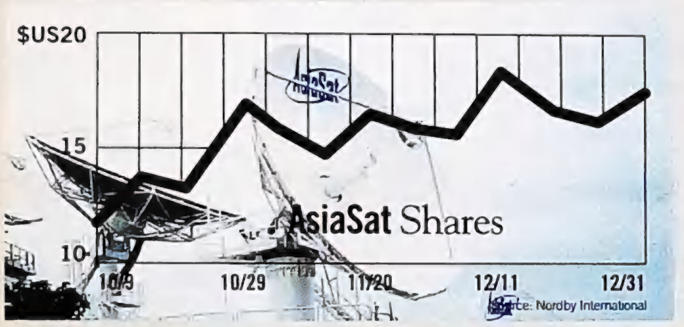
SATELLITES

Birds of a Feather

CHALK UP ANOTHER WIN for globalization, even if the players' assets in this game are orbiting more than 22,000 miles above Earth.

Société Européenne des Satellites' $US331 million purchase of 34 percent of Asia Satellite Telecommunications Co. Ltd. last month should give both satellite operators increased leverage in an industry that's both expanding and evolving quickly.

The numbers tell a lot of the story: The footprints of SES' eight-bird-strong Astra satellite system covering Europe, and AsiaSat's three birds serving Asia, have little overlap. Combined, they can serve more than 74 percent of the world's population, the companies say.



SES bought its stake from Cable & Wireless plc and Hong Kong holding company Hutchison Whampoa. Those two also sold their shares to exising AsiaSat partner China International Trust and Investment Corp., which now owns 35 percent of AsiaSat.

The new ownership structure, thanks to its deep pockets and deeper industry experience, also looks to help AsiaSat during comparatively leaner times in the region. AsiaSat 1 operates at about 81 percent capacity compared with 85 percent a year ago, while AsiaSat 2 operates at 83 percent capacity versus 86 percent last year.

"For video that's not that great, but telecom customers will grow into [the unused capacity]," says AsiaSat CEO Peter Jackson. Currently, about 70 percent of AsiaSat's business comes from video customers, while the remainder comes from telecoms.

Asian programmers, meanwhile, have expressed strong interest in AsiaSat 3, which will launch next year. It'll reach 60 million households and be free of past contractual agreements that gave powerhouse programmer Star TV veto power over which of its competitors could be transmitted on AsiaSat 1 and AsiaSat 2.

SES, $US1.1 billion richer from its July 1998 initial public stock offering, could be on the prowl for further buys.

"I'd be surprised if this is the last of their moves," says Mickey Alpert, a telecommunications consultant in Washington, D.C.

CONGLOMERATES

Tuned In, Turned Up

WHEN MEXICO'S GRUPO TELEVISA S.A. began putting the word out in early October that it would post strong third-quarter results, investors listened. In a matter of a few weeks, its shares that trade in New York surged from about $US17 to more than $US27.

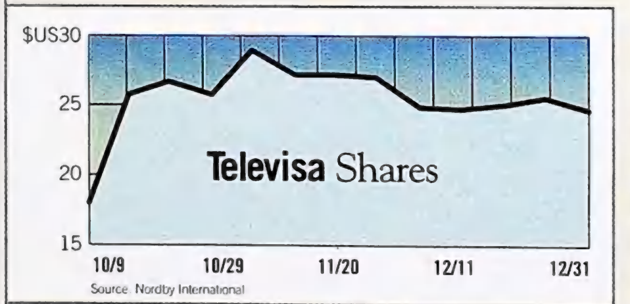
With the official announcement on Oct. 28 – cash flow up 26 percent and primetime ratings up 10.1 percent from the same time a year earlier – the shares approached $US30.

But, since then, they've been relatively static, and near the end of December ventured into sub-$US25 territory.

That's not to say the good news dissipated quickly. Investors were also glad to see third-quarter cost reductions of $US40 million as the company moves to trim debt. They were less enthusiastic, though, about Televisa's October sale of about half of its one-fifth stake in Univision Communications Inc. at a time when the U.S. Latino broadcaster's shares approached a 52-week low.

Televisa "had solid numbers in the third quarter. But no one knows how sustainable that is," says John Graves, who follows the company for Paribas in New York and has a 12-month price target of $US31 on the stock. He points to Televisa's plans to increase ad rates on its broadcast networks and more directly tie those rates to program and channel performance. "Televisa's laying down the law," he says, viewing the leveraging as a necessary task.

Graves is also bullish on Televisa's pay TV operations. Though they're still relatively young, the Cablevision cable operation and Innova, the local unit of the Sky Latin America DTH platform, target separate demographics, limiting cannibalization. And Televisa's recent moves to bring in joint venture partners, such as Britain's Pearson plc, on its pay TV networks is "smart," he says.



Here's something else to keep your eye on: Graves "wouldn't be surprised" to see Televisa spin off Innova into a separate publicly traded company sometime after it becomes operationally profitable.

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THE PAY TV PAYOUT

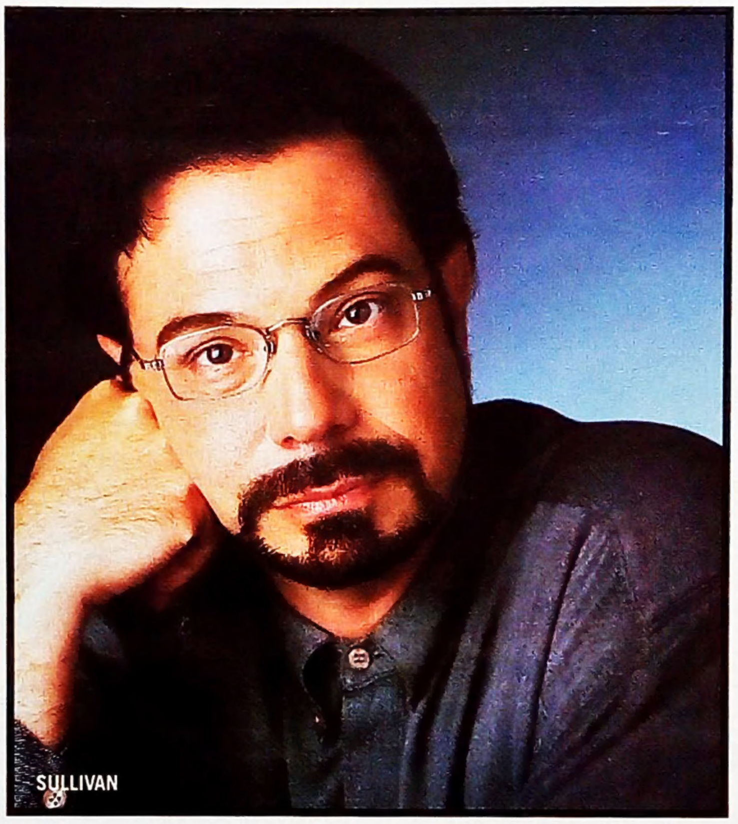
Company	Ticker	Exchange	Close 11/13/98	Close 12/31/98	Percent Change	52-Week High	52-Week Low
AsiaSat	SAT	NYSE	$14.75	$17.50	18.64	$22.00	$9.75
At Entertainment	ATEN	Nasdaq	$9.13	$6.75	-26.03	$19.37	$3.87
British Telecom	BTY	NYSE	$134.88	$151.69	12.47	$154.43	$79.56
BSkyB	BSY	NYSE	$48.38	$46.38	-4.13	$54.50	$34.12
Cablevision Systems	CVC	AMEX	$48.00	$50.13	4.43	$50.25	$21.75
Cable & Wireless	CWZ	NYSE	$40.81	$45.38	11.18	$59.12	$21.12
Canal Plus	CNLP	Paris	$252.48	$272.47	7.92	NA	NA
Com 21	CMTO	Nasdaq	$19.06	$21.00	10.16	$25.00	$8.37
Deutsche Telekom	DTEG	Frankfurt	$26.68	$32.84	23.10	NA	NA
Flextech	FLXT	London	$9.14	$10.07	10.23	NA	NA
General Instrument	GIC	NYSE	$25.81	$33.94	31.48	$36.93	$16.43
Globo Cabo	GLCBY	Nasdaq	$2.38	$2.25	-5.26	NA	NA
Grupo Televisa	TV	NYSE	$27.19	$24.69	-9.20	$43.25	$14.87
Hongkong Telecom	0008	Hong Kong	$1.93	$1.75	-9.09	NA	NA
Matav	MATVY	Nasdaq	$20.00	$19.38	-3.13	NA	NA
News Corp.	NWS	NYSE	$26.31	$26.44	0.48	$33.50	$20.18
NTL	NTLI	Nasdaq	$50.56	$56.44	11.62	$65.00	$26.75
NTT	NTT	NYSE	$38.00	$37.50	-1.32	$49.50	$31.00
PanAmSat	SPOT	Nasdaq	$36.00	$38.94	8.16	$66.12	$26.50
Scientific-Atlanta	SFA	NYSE	$17.25	$22.81	32.25	$27.93	$11.75
Telcom Italia	TI	NYSE	$74.31	$87.00	17.07	$90.87	$53.00
TCI	TCOMA	Nasdaq	$39.19	$55.31	41.15	$56.75	$26.25
Telefónica	TEF	NYSE	$131.19	$135.38	3.19	$158.12	$87.50
Telewest	TWSTY	Nasdaq	$21.75	$28.25	29.89	$34.37	$11.50
TV Filme	PYTV	Nasdaq	$1.00	$0.38	-62.50	$6.00	$0.25
UIH	UIHIA	Nasdaq	$12.56	$19.25	53.23	$20.50	$7.75

Source: Nordby International

FORUM

Thriving in the Digital Revolution

BY ED SULLIVAN



SULLIVAN

Ask any TV executive what terms like digital, broadband and convergence mean, and you'll likely get a different answer every time.

When Colonial Americans threw tea overboard into Boston Harbor, their motive was clear: no taxation without representation. Everyone knew what a tax was and what it cost him. As with most revolutions in the past, the opportunities were obvious. But that's not the case in today's digital revolution.

A technological shakedown born of the Internet, nurtured by satellites and spilling out of set-top boxes is taking place. Wherever you are in the content/distribution continuum, you now find yourself with a once-in-a-generation, maybe even a once-in-a-lifetime, opportunity. Last November, when the switches flipped on high-definition television in the United States and digital-terrestrial television in the United Kingdom, the stakes shot up and the clang of the wake-up call rang out.

But, what did we wake up to find?

Chances are you already know the players: They're the companies involved with cable TV, telephony, satellites and technology. All are providing their solutions, in most cases proprietary, for this "New World" in which services such as electronic program guides, e-mail, Web browsing, e-commerce and other applications are developing. They're all offered to the consumer as valuable enhancements, and to distributors as new revenue streams.

UP IN THE AIR

Ask any TV executive what terms like digital, broadband and convergence mean, and you'll likely get a different answer every time. Ask what it means to their business, or their brand, and chances are that they are either absent a strategy, are trying to formulate one, or have adopted a "wait-and-see" attitude, hoping to capitalize on the lessons of the early techno cliff-divers. It may cost the wait-and-seers a lot of resources to play catch-up.

We are entering a world in which digital means more — more channels, more interactivity and, hopefully, more quality. All of this "more" is placing control and choice in the hands of viewers and consumers. Unfortunately, at least in the U.S., the digital marketplace is so crowded and so muddled that consumers are only confused. Each player seems to be shouting louder and louder in order to be heard above the cacophony. Mergers and acquisitions are creating even more noise.

So what are the opportunities for program networks in this New World?

If you were concerned with building a relationship with your audience before the digital revolution, you should be even more concerned now. Your relationship with your viewer/customer demands a sound strategy.

The "B" word, brand, has been overused, but think of it this way: You have a brand. You have equity in your brand. Your brand comes with a set of expectations and promises.

Now, instead of broadcasting that brand, this new era of personalized television and interactivity forces you to put that brand into a narrowcast, intimate, one-to-one relationship with the viewer.

Making a promise and gaining trust becomes increasingly complex: personality to personality. Unique services, unique interaction and listening to your audience will characterize your competitive edge.

The playing field has changed, making brand evaluation and strategy essential. Often, intelligent executives have called us at Pittard Sullivan to discuss the idea of "buying some branding." In reality, they are referring more to the design and promotional aspects, which communicate the key principles in realizing a brand.

You can't, however, buy branding "by the pound." It doesn't come off the desktop or out of promotional campaigns. Branding is a much broader, marketing-focused concept. In philosophy and style, it becomes the touchstone for identifying a company. It is the key to defining how you want your most valuable audiences to think about and relate to your company, in terms of the promises, trust and relationship you wish to build.

MORE THAN A CONCEPT

Branding is a creative concept. But it is also much more; it is an organizational approach that communicates both internally and externally what a company is all about.

The principles behind creating and maintaining a powerful and lasting brand asset are clear. But the process of undertaking a branding effort internally can challenge every aspect of a company's business. It can create much confusion in the search for how to become more customer-focused and how to more successfully market products and services.

Even the initial results from a branding initiative can at first appear to be too abstract and philosophical for most of today's anxiety-ridden entertainment executives. There is a lot of pressure to produce short-term successes, quite often at the expense of long-term results. Real marketing goals and objectives for selling can, and do, cloud the more lofty and important aspirations of creating and maintaining branded assets.

These issues, along with internal politics and organizational problems, can lead to emotional reactions that can cut deep into the very core of a company's expectations and internal capabilities for meeting its goals. Branding and managing a brand are ongoing processes calling for reevaluation at key times.

A clear vision informs every decision the company makes. Set against the dynamic landscape of this new digital reality, which could usher in a whole new set of products and services, the branding process becomes even more essential.

Attempting to brand or re-brand internally, without help, can become a very frustrating, counterproductive effort. The process calls for careful monitoring and proper facilitation.

CAREFUL LISTENING

Even our company will often contract consultants and leading entertainment executives to assist us in molding and maintaining our little brand in the world. I often find myself questioning and challenging the concepts presented to me. But I have found that if I listen carefully and more fully understand the rational and emotional aspects of making a change, the results can be tremendous.

Today, you can be at the source of change as it relates to your brand. If you don't get on board in the beginning, you'll be scrambling to catch-up, and likely be a victim of the changes taking place.

The effects of the digital revolution aren't fully clear yet, but that does not mean your brand can't stand out clearly. Believe it or not, when your brand strategy is clear, it produces opportunities. As you sail your digital ships, it pays to think carefully about branding before you start throwing things overboard.

Ed Sullivan is president and CEO of Culver City, Calif.-based Pittard Sullivan, a company specializing in marketing and communications strategies. He can be reached at the e-mail address mr.ed@pittardsullivan.com, or by phoning (1) 310-253-9100.

ONE ON ONE

Turning the Table

Chris Fager Speaks with William Mahoney

This is my last "One on One" column. Effective Jan. 25, I am moving to the newly created position of associate publisher of Multichannel News International, *where I'll oversee the day-to-day business operations of the magazine. I will relocate to New York from London on April 1.*

I leave this column bidding great thanks to all of the executives who participated in it over the past few years. You were generous with your time and insight into the business, and you were often frank in your comments. A trade journalist can ask for no more.

"One on One" will continue to appear as a monthly feature with rotating interviewers. However, it is fitting that, after interviewing dozens of top executives in this space, the roles are reversed this time around.

I first considered interviewing myself for this month's column, but Janet Stilson, Multichannel News International*'s editor, knew I shouldn't get off that easily.*

On her suggestion, the questions were posed to me by Chris Fager, senior vice president of international development for E! Entertainment Television in Los Angeles. He was kind enough to take on the task, and he relished it, showing up with a printed list of questions, a collection of my columns and his trademark sense of humor.

If you don't know Chris already, he's a real sport, one of the "good guys." And he wields his sword deftly.

Fager: Thinking about all of the reporting and all the writing and all the work that you've done, I'm dying to know if you think that — from a worldwide point of view — one form of distribution will eventually emerge as the dominant multichannel-television [distribution] mechanism?

Mahoney: I really don't buy into cable's argument that it's always going to have a better service, a more interactive service. If you look at the last few years, satellite continues to catch up to cable in terms of its technical capability, and sometimes surpasses it. Look at satellite's lead in digital television.

I think that both are going to wind up having their niches and being fairly even in a lot of markets, with some sort of wireless or terrestrial multichannel technology picking up a little bit of slack.

Fager: So you see longevity in the satellite and the through-the-air businesses. You don't see, essentially, multichannel television becoming dominated by wires worldwide?

Mahoney: No, I don't see it. Absolutely not. The progress that the satellite companies have made over the last five years is tremendous.

That ball is rolling, and I think they will have much more of a subscriber base to build on than some of the people who are making the investments in cable and getting in so deep in such a long-term investment.

Fager: Because of your perspective as an American, I want to talk to you about what's going on with American multichannel exports.

Major American cable operators have cut, run or consolidated in many regions.

On the programming side, there are oceans of red ink. You've covered some catastrophes of certain programmers. Is our American multichannel business proving as inept as our foreign policy?

Mahoney: No. I think it's just been a healthy purge of the weaklings. Some of the channels that probably shouldn't have ever launched have been weeded out. I think it's healthy for the business long-term.

Everyone always uses the lemmings metaphor. I think it is sort of more like moths drawn to the light.

First they flew to the U.K., and then they flew to Continental Europe, and it went on and on. You saw everybody flying to Asia a few years ago, for instance.

A lot of the people that entered the U.K. in a wave in 1993, for example, only entered because there was a distribution opportunity with British Sky Broadcasting, not necessarily because they had a strong programming proposition.

There was real estate to be grabbed. They did it, and most of the people that had weak services have flown back over the ocean.

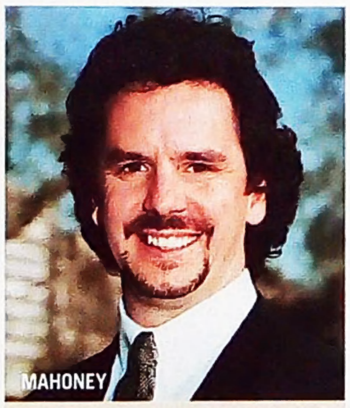
It's better to have a little bit of a purge, a little steam released like that, rather than have everyone going down a dark path and then suddenly see major failures — not of just channels, but of entire international divisions.

It's better to have people say, "OK, we're doing well now in Australia and Asia/Pacific, but we're not doing well in Europe, so let's turn that off and concentrate on the other region." Country Music Television is the example there. That's smart.

Fager: So, if I'm asking you from a programmer's point of view what lessons you think we should have learned from that spate of recent failures, particularly in Europe, what would they be?

Mahoney: Don't follow the others. Pick your shots, and don't get too geographically diverse. I think that's the biggest issue. People found that manpower, time and financial resources were stretched too thin.

It was understandable. They needed to sort of cover their bets.



WILLIAM MAHONEY

TITLE:
Executive Editor, *Multichannel News International.*

BACKGROUND:
Seventeen years of journalism experience. For the past six years, has been based in London as executive editor of *Multichannel News International.* Joined the magazine in 1993 to take that post. Before that, spent 11 years with the publishing company Crain Communications Inc., working as an editor and reporter in Los Angeles; Washington, D.C.; and Chicago.

STATISTICS:
37 years old; married; relocating to New York from London on April 1.

It was like somebody throwing chips across the roulette table, hoping that, in the end, they would be O.K.; that it would be, at worst, a wash, but maybe one would be that big hit.

They've learned that they have to do pretty much what your company has done: be very judicious, cautious and…

Fager: …neurotic, I think you said.

Mahoney: Neurotic can be a good thing.

Fager: I want to move on to what I would call roman numeral two, which is "journalism as a trade press biz."

You see this proliferation of trades and, for those of us, such as yourself, who are also reading international trades, it's just overwhelming.

I'd like you to think about it this way. I'm starting a new magazine, which is going to cover just the television trade press. What do you think should be on the cover? And what would be our lead story in that magazine, as far as what do we make of the trades at this point?

Mahoney: Probably the most telling cover you could do would be to put up 10 or 15 versions of the same story that was covered after it broke, and compare just how similar the content would be in those stories. They might be 98 percent the same, from story to story. That's probably what's serving people the least right now.

Because you feel like you're going to find morsels — nuggets — you search through that.

But you spend so much time going through the same type of coverage that you've read, or seeing regurgitated press releases, to find that one little fact or figure or piece of information.

The difference in the international trade business is to try to stay ahead of companies geographically. Get to points, get to people, places, companies — companies that maybe you've worked with, but that you don't know that well.

That's what really keeps us energized in the international part of the trades.

I've spent half my career in international trades, and half doing domestic U.S. coverage. The challenge in domestic coverage is finding something new. But, in international, you're always out there on the front lines somewhere, sort of pioneering a new region, finding a new person. ■

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